THE FREEMAN

IDEAS ON LIBERTY

How Government Makes Natural Disasters Worse

Things Are Better Than We Think (And Could Be Better Yet)

Economic Fascism

Losing Touch

JUNE 1994

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PERSPECTIVE

The Power of Paternalism

Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case could be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individual's body only? Is not the harm a man can inflict on his mind and soul even more disastrous than any bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs. . . .

It is a fact that no paternal government, whether ancient or modern, ever shrank from regimenting its subjects' minds, beliefs, and opinions. If one abolishes man's freedom to determine his own consumption, one takes all freedoms away.

—LUDWIG VON MISES
Human Action

Insidious Monopolists

It has been suggested that, because the nominal price of first-class postage is about where it was in the late eighteenth century, Americans who complain about the proposal to increase postal rates are merely whining wimps who are lacking in historical perspective.

However, the real price of transportation (a key input in postal service) has plummeted over the last 200 years. In 1799 it took 53 days for an Army courier to travel from Detroit to Pittsburgh. Today the same trip can conveniently be made in minutes.

Likewise, the productive efficiency of the United States is vastly greater now than it was even a few decades ago. Given the plunge in transportation costs, joined with

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other technological improvements and a large increase in the scale of postal activity, the price of postage should have fallen dramatically.

Americans do not oppose postal-rate increases because of their ignorance of history. Rather, opposition to these increases grows from the correct perception that a legally protected monopolist such as the United States Postal Service can keep prices higher, and service inferior, to what they would be under competition.

Regardless of how today's postal rates compare with rates in the past, opening the delivery of first-class mail to competition would lower rates still further while improving service.

—DON BOUDREAUX and GEORGE SELGIN
in a letter to *The New York Times*

Ortega's Mass Man Redux

In his 1932 book, *The Revolt of the Masses*, the Spanish philosopher José Ortega y Gasset defined the average or mass man as one who "in face of any problem, is satisfied with thinking the first thing he finds in his head." Ortega's Mass Man is with us today in the person of the average man who believes what he reads in the latest headlines or sees on the network news.

He doesn't want to be bothered with the details or further analysis of the facts. The Mass Man, according to Ortega y Gasset, "will tend to consider and affirm as good everything he finds within himself: opinions, appetites, preferences, tastes. . . . He has no wish to find the truth; he is intellectually a barbarian." This man accepts no personal responsibility or punishment for what he does. He claims he cannot control his desires; he is a victim, so it is perfectly permissible to finagle food stamps, welfare, a job, or a corporate subsidy.

The Mass Man, Ortega y Gasset states, "does not want to give reasons or to be right, but simply shows himself resolved to impose his opinions. . . ." He has "decided to rule society without the capacity for doing so. . . . He wishes to have opinions, but is unwilling to accept the conditions and presuppositions that underlie all opinion." The Mass Man of 1994 sees no connection between the rising crime rate and the teaching of relative morality.

Ortega y Gasset's Mass Man's ideas "hardly reflect in any way the reality to which they appear to refer and. . . . there is not even an attempt to adjust the ideas to this reality. [He] is trying to cut off any personal vision of reality. It does not worry him that his ideas are not true." Such a man considers humans as ants or creatures that exist for the state without any inherent value.

According to Ortega y Gasset, "There is not to be found . . . a single group whose attitude to life is not limited to believing that it has all the rights and none of the obligations." That perfectly describes the Mass Man of 1994.

The superficial, non-thinking Mass Man seems to be present and threatening not only in Ortega's day and our own, but throughout recorded history. He appears whenever thinking man abdicates his responsibilities and relies on someone else to perform his duties.

—CHARLES RODA

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THINGS ARE BETTER THAN WE THINK (AND COULD BE BETTER YET)

by Jane S. Shaw

To an objective observer, Americans' attitudes toward the environment must be puzzling. Many Americans think that our forests are being destroyed by logging, that the world's natural resources are disappearing, that hundreds of species are going extinct each year, and that the future, with a depleting ozone layer and imminent global warming, is bleak. But when Americans look outside their window or travel on vacation, they in fact find clean air and clean streams, and miles and miles of open space and forestland.

Furthermore, current information casts doubt on worries about the future. Most of the nonrenewable resources that people feared would skyrocket in price, materials like copper and tungsten, are cheaper than they were ten years ago. And in spite of two decades of worry about energy, the world is awash in oil.

Although human beings may be having an effect on the climate, careful study of these issues indicates that the impacts are likely to be modest. The ozone layer is not being ripped apart by floating chemicals; even if there has been five percent depletion, as some pessimists suggest (and no one is sure), the loss has about as much impact on skin cancer as moving south sixty miles, for example from Palm Beach to Miami.[1] Fear of global warming is based on computer models of climate that are so inadequate that they are essentially speculation.[2] And recent satellite studies of the Amazon suggest that the rate of deforestation may be about one-fifth of what scientists previously thought.[3]

The fact is that the environment in the United States is generally a healthy one, and the alarms about global problems (deforestation, ozone, the greenhouse effect) are exaggerated.

The world does have environmental problems, but most of them are quite different from the ones that we read about daily. James R. Dunn and John E. Kinney recently wrote a paper that included two lists of environmental problems.[4] The first came from a poll of Americans taken by *The Wall Street Journal* and the National Broadcasting Company in April 1990. It listed environmental problems in order, based on the number of people who thought they were serious problems. At the top were hazardous waste sites, water pollution from industrial wastes, occupational exposure to toxic chemicals, oil spills, and the destruction of the ozone layer.

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Then came a list of environmental problems developed by an Ethiopian geologist, trained in the United States but familiar with a number of African nations. At the top were diseases (such as sleeping sickness, malaria, and dysentery), soil erosion, loss of soil nutrients (primarily due to lack of fertilizer), lack of sewage disposal and contamination of water by human bodily wastes, insufficient facilities for treatment of drinking water, and lack of refrigeration.

"The lists have virtually a 100 percent lack of correlation," said Dunn and Kinney. "The U.S. list is mostly a media list in the sense that the public must be told of most problems (that is, most citizens do not really see or feel the problems on a daily basis)." In contrast, "the African problems are obvious to everyone who lives there." They are "megaproblems, pervasive, largely visible everywhere and result in decreasing food production, very high infant mortality, severe social problems, a decreasing average human life span, and a decrease in human productivity, average income, and quality of life."

The Role of Economic Growth

Nearly every one of the problems cited by the Ethiopian geologist could be corrected by economic growth. And, indeed, the attractiveness of the American environment (and that of most developed nations) has come about because of economic growth.

There are two reasons for the link between economic growth and a better environment. One is that greater wealth leads to greater demand for environmental quality—and the willingness and ability to sacrifice to attain it. Until people have food on their tables, they can't be terribly concerned with the view from their windows. Only after they have basic sanitation (which millions of people still lack) can they worry about making streams and lakes pristine. In the United States today, people are wealthy enough to willingly pay higher taxes and higher prices for goods, if necessary, to assure that the environment is clean.

Environmentalists themselves offer the best illustration of the connection between economic growth and environmental protection. The readers of *Sierra*, the magazine of the Sierra Club, have (according to *Sierra*'s 1992 reader study) an average income of $79,400, compared with the average American adult's income of $37,100.[5] These wealthy people want a clean environment and they are willing to pay for one.

A second reason for the good environmental record in the West is that the Western countries are capitalistic. Contrary to much popular rhetoric, capitalism has characteristics that spur pollution control and environmental improvement, even without an Environmental Protection Agency.

For example, most pollution is waste. The smoke that contributes to air pollution is often unburnt fuel. Profit-making companies have over the years tried to save fuel by reducing pollution. One of the early measures of air pollution, the Ringelmann number, was developed by engineers trying to save diesel fuel.

Profit-making companies have incentives to be efficient. Economist Mikhail Bernstam compared the use of energy in capitalist and socialist countries. He found that the market-based economies used only 37 percent as much the energy as did the socialist nations to produce the same output.[6]

Market-based economies conserve on other materials as well. In 1965, for example, 164 pounds of metal were needed to produce 1,000 beverage cans. But that went down to 35 pounds by 1990, the change caused by the shift to lighter-weight aluminum and a reduction in the amount of material used.[7] Competition pressured the companies to use less raw material.

And environmentalist Randal O'Toole points out that we can thank the automobile for the dramatic regrowth of forests in the twentieth century! By displacing horses, the automobile eliminated the need for so much pastureland for horses, so millions of acres of farmland reverted to forest.[8]

These points—the fact that economic growth leads to greater demand for environmental quality, and the fact that capitalism discourages waste—help explain the im-

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provements in the Western countries. Of course, profit incentives do not completely eliminate all waste. Traditionally, common law was also a tool that people used to protect themselves from extreme pollution, and today laws and regulations are widely used to prevent pollution. Interestingly, however, evidence suggests that air pollution declined faster in the United States in the 1960s, before passage of the Clean Air Act, than it did after passage of the Act.[9]

Why the Worry?

So, in the face of such good news, why are Americans so worried? Perhaps because when the most severe problems have been solved, the more abstract ones surface. There is always more to be done.

But there are other reasons, too. While environmental groups played an important role in publicizing the need for improvements in air and water pollution in the past, today many are bureaucratic organizations whose programs depend on large memberships and steady donations. It is in the interest of these groups to keep fear alive. In a paper given at the Mont Pelerin Society in 1991, PERC Senior Associate Richard Stroup observed: "It is ironic that to date, at least, the media and most voters seem not to have recognized that representatives of environmental groups face the same conflicts of interest [as business executives do]. They may be nonprofit, but their financial health and expansion depend on donations and government grants, both of which are likely to be enhanced if they can convince the public that crisis looms."[10]

Stroup also points out that reporters are trying to break into print and editors are trying to win readers with dramatic scare stories. Even scientists get into the game. While their science may be honest, the way they interpret their results (say, on global warming) may determine whether their laboratory gets additional funding or not. And government agencies find that "a crisis loosens the purse strings and paves the way for increased power or 'turf,'" says Stroup.

Politicians, always ready to take advantage of public perceptions, have based policy on heavily slanted information about environmental problems. Such policies may have unfortunate consequences. For example, government regulations requiring fuel efficiency have led to smaller cars, which result in more highway deaths.[11] The explosion of the Challenger space shuttle in 1986 seems to have been caused by the withdrawal from the market of asbestos-based putty that was used to seal the o-rings.[12] This withdrawal stemmed from the EPA's campaign against asbestos (largely unwarranted, it turns out). The current government campaign to eliminate CFCs (such as Freon) will raise the price and energy requirements of refrigeration around the world, adding to the troubles of the world's poorest people. Fewer, smaller refrigerators mean more food poisoning and less fresh, wholesome food.

So the environmental picture is mixed. As long as economic growth occurs, we can expect a better environment, but if we use our resources to fight largely imaginary disasters, we may end up harming those whose environments are in the worst shape. □

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How Government Makes Natural Disasters Worse

by Llewellyn H. Rockwell, Jr.

An earthquake or hurricane always generates an inspiring rush of private generosity. People are never more willing to help their neighbors than when they are casualties of nature. It's also inspiring when, as after the Midwestern floods, the victims adapt to their terrible losses and begin to rebuild their homes and communities without a whine, even lending helping hands to others.

What Leonard Read called "the miracle of the market" is also on display. Economic conditions are radically changed by a disaster. Resources that were once in great supply go into shortage. Materials and services once desired only in limited markets are suddenly in general demand. Yet free enterprise works rapidly to absorb these shocks. Through a system of private property and free-floating prices, the market coordinates people's needs and transforms tragedy into social cooperation.

Besides generosity and enterprise, something else seems ever-present in natural disasters: meddling government. Indeed, bureaucrats and politicians love nothing better than pretending to come to the rescue. Their usual do-goodism appears more plausible and sincere. Their favorite solution to social problems—controlling markets and pouring in other people's money—suddenly appears to be the only way out. Of course, the "solution" creates new imbalances, slows repairs, and skews the rebuilding effort.

Prices after hurricanes, earthquakes, and floods reflect sudden changes in supply and demand. Essentials like water and gasoline soar in price as if to inform people that they should use them sparingly. What is remarkable is not the high prices—which the media always ascribe to "gouging"—but that the market works so well in the face of catastrophe. When local bureaucrats put caps on prices, they create more shortages.

After Hurricane Hugo hit Charleston, the city punished price "gouging"—that is, charging the market price—with fines up to $200 and 30 days in jail. Hurricane Andrew, which hit Dade County, Florida, inspired bureaucrats to new heights of tyranny, with fines of $500 and 60 days in jail. When that didn't work, the state attorney general set up a Soviet-style "Economic Crimes Unit" and threatened fines of $10,000.

All this is folly. Businessmen will always charge as high a price as they can get away with, whether in the midst of disaster or not. Consumer sovereignty and competition, not

Mr. Rockwell is president of the Ludwig von Mises Institute in Auburn, Alabama.

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fines, prevent them from "gouging." Those market forces are always in place, and especially so after a disaster. Businessmen know there are needs to be met, and rush in, sometimes from afar, to provide them. Entrepreneurs spend their lives looking for unmet needs they can satisfy. But these providers have to compete with each other, a process which results in prices that are neither too high, which would lead to underutilization, nor too low, which would lead to waste.

If government intervenes by mandating artificially low prices, it conveys misleading information to consumers, causing them to use more than they should of scarce resources, and making existing shortages more intractable.

Is it wrong for private enterprise to make money from disasters? Is this "profiting from other people's misfortunes"? If capitalists didn't benefit, it wouldn't make economic sense for them to provide people with what they want. The other beneficiaries, who seem somehow forgotten, are the people with whom the capitalists make their exchanges.

It's not only local government that impedes market adjustment. Natural disasters are boons to the central government as well. The Los Angeles earthquake, for example, inspired the federal government to unparalleled fits of "generosity." One high-ranking official asked that "Congress and the American people approach this situation with the same sense of compassion and concern for our fellow human beings that we've applied in other disasters."

He did not offer to clean up debris or have Congressmen repair the highways. He wanted the government to transfer $8 billion from its owners and earners, to non-owners and non-earners, the government and its selected clients. By the time the transfer was finished, the total exceeded $8.6 billion. The timing worked in the government's favor as well. The extra spending came too late to be included in the FY 1995 budget, so spending and deficit projections were even more off the mark than usual.

The central government did not route the money directly to the L.A. residents. That would have taken much of the fun and political advantage out of government compassion. Instead, much of the money went to agencies within the central government itself. The Federal Emergency Management Administration (FEMA) received $3.9 billion, the Small Business Administration $1.44 billion, the Education Department $245 million, the Transportation Department $1.4 billion, Veterans Affairs $280 million, and Housing and Urban Development $500 million.

The central government's infusion of cash provided a new lease on life not only for FEMA but for every other bureaucratic beneficiary. They all got budget increases they couldn't have negotiated through the usual political process. Not only did their budgets zoom, but they were offered the chance to appear essential to the commonwealth. "Good thing we didn't cut those agencies way back when," we are encouraged to think. "What would we do without them now?"

Most people hurt by the L.A. earthquake will never see a dime of the $8.6 billion. To get a small business loan, you would have to fill out a giant form, subject yourself to federal scrutiny, be politically correct, wait a surprising amount of time, and then rely on the discretion of bureaucrats. Even if you did get the money, you should tear up the check, since such wealth transfers are both immoral and socially damaging. Most of the money, of course, ends up in the hands of lower levels of government, who take their cut and disperse the remainder to favored contractors and other campaign contributors.

Henry Hazlitt, in his book *Economics in One Lesson*, encouraged us to look at the unseen consequences of government benevolence. The billions extracted from the private economy to clean up the Los Angeles earthquake could have been left in private hands to expand investment and jobs. Some of this capital would have flowed to Los Angeles, where people's needs are the highest. The private sector could have invested at a profit in a place with high consumer

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demand; instead private earnings were forcefully taken by government, which empowers that institution at the expense of society, penalizes work and savings, and rewards the socially unfortunate skills necessary to get loans and grants from politicians.

Oddly, wealth destruction (through either earthquakes or taxation) does not appear in the official data. In a strange statistical anomaly, wars and natural disasters appear to increase economic growth. The reason is the manner in which the Gross Domestic Product is calculated. It counts only spending and production of goods and services. When flood waters engulfed the Midwest, for example, the result was not a declining GDP but an expanded one. The GDP also counts government spending as wealth, when in reality it subtracts from wealth, only one of many other reasons that the construct deceives rather than informs about the economy.

Government aid also squeezes out private solutions the crisis would have generated. Consider, for example, the highway system. In Los Angeles, several crucial highways collapsed, and everyone bemoaned the failure of their "earthquake-proof" design, and screamed for roads with more reinforcement. Why not use this golden opportunity to let private companies own and build them, and charge a fee for their use? The roads would have been built much faster, and because private companies could be held responsible for a future collapse, they would have added incentive to make them as strong as possible.

An added benefit of private roads would be reduced congestion. In Los Angeles, traffic jams cause billions in lost productivity and even lead to violent fits of rage. When road service is offered at zero price, as economists point out, the inevitable result is overutilized resources. If private companies ran the roads, prices would match supply with demand. The roads would be safer, in better repair, less congested, and taxpayers all over the country would have been spared higher taxes for Los Angeles "freeways."

Instead, Los Angeles will pay a heavy price for its reliance on federal aid. Newly built roads will be even more congested than the old ones. Schools will find themselves more subservient to Washington than ever before, since the Education Department will take credit for rebuilding classrooms. And businesses that do get money from the Small Business Administration and other agencies will shift their loyalties from customers to executive agencies.

After a crisis, the government rarely shrinks to its pre-crisis levels. This has been the pattern throughout this century, as Professor Robert Higgs has pointed out. After the Great Depression and the Second World War, for example, we never returned to normalcy. Similarly, the Cold War helped justify huge military budgets and expanded Pentagon power, but once it ended, the promised "peace dividend" turned out to be a tax increase so we could play vice squad to the world.

The only way to prevent government at all levels from taking unfair advantage of natural disasters is to keep it from intervening in the first place. Two months before the earthquake occurred, former Senate candidate Bruce Herschensohn spoke at the Claremont Institute near Los Angeles on disaster aid. In his speech, he urged that California turn down all central government aid when the next earthquake hit.

He cited the waste and unfairness of taxing people all over the country to pay for California's ills. And he noted that nothing in the U.S. Constitution gives the central government authority to bail out earthquake-prone areas. The Tenth Amendment reserves to the states and to private enterprise the responsibility for such disasters.

If California had tried such an experiment and rejected government aid, it would have set—as Mr. Herschensohn noted—a shining example for the rest of the country. And it would have been the first major step away from leviathan. Instead, we witnessed another bad example of the government pretending to rectify every ill in society except statism, and making us all worse off in the long run. □

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Economic Opportunity Needs A Moral Dimension

In this Congressional election year, expect to be barraged with rhetoric about "getting America moving again," "creating jobs, jobs, jobs," and "stimulating the economy."

Politicians love to promise the future and ignore their own handiwork of the past. They typically spend much more time concocting new schemes for intervention than they spend searching for old ones that deserve to be repealed.

What really deserves our attention are those specific barriers to economic opportunity erected *by* government—regulations, taxes, licensure laws, unfunded mandates, building and zoning codes, special privileges for organized labor, subsidies to business, chronic budget deficits that consume needed capital, a welfare system that puts a premium on idleness and a penalty on work, and an education monopoly that fails to teach children as it vacuums their parents' wallets, to name a few.

Each 1 percent increase in the federal tax burden, report economists William Dunkelburg and John Skorburg for the Cato Institute, results in a 1.8 percent decline in national output and a 1.14 percent decline in national employment—a loss of about 1.5 million jobs. A study from the National Center for Policy Analysis points out that a 1 percent decrease in the tax rates on all saving and investment income would generate enough new investment to increase the nation's output by $25 billion.

Dozens of studies have shown that excessively restrictive zoning laws, building codes, and property taxes constitute the greatest obstacles to affordable housing for the poor. Minimum wage laws, by making it illegal to employ people whose skills are worth less than Congress decrees, keep hundreds of thousands from getting a start in the job market. Endless regulations designed to curtail entry into markets from trucking to taxis freeze out many a would-be entrepreneur from creating new businesses.

I'm not talking about basic laws which prevent or punish harm to others. I'm talking about the primary social disease of our age—government beyond its proper bounds, playing Robin Hood, Santa Claus, and Mother Hen all at the same time, inflicting real damage to real people who have victimized no one. Economists, at least, are increasingly taking a critical eye to such policies.

It must be understood, however, that economic analysis will not by itself make the case for ridding ourselves of these man-made obstructions. It is powerful, but still not enough, to simply tote up the numbers and show how many jobs are erased by particular actions of government. It is not enough to produce graphs and models that plot the fluctuations in Gross National Product.

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What is sorely needed in the discussion is a recognition of the moral backwardness that so many of these barriers to economic opportunity represent. Dismantling the barricade requires that we who advocate freedom of enterprise seize the high ground. We must appeal to what most people instinctively know is *right*, not just what makes the cash register sing. We must learn to speak of the deleterious actions of government in terms of trampled rights, broken dreams, and ruined lives.

For instance, when the city of Detroit in my state imposes—as it does—a tax burden that is *seven* times the average burden in Michigan municipalities, that is not simply bad economics. It is an *affront* to every citizen of that city who wants the best for his family, who wants simply a chance to be productive. Those high taxes should evoke visions of hungry children, of a boarded-up business that was once someone's dream, of homes torn apart because of the breadwinner's inability to pay the bills of irresponsible politicians.

In case a reader might think I'm dealing in generalities, let me provide a very specific example—also from my state of Michigan. As is the policy in 41 other states which regulate the business of trucking, the "authority" to haul goods within the state is granted by state government. The Michigan Public Service Commission is empowered to determine who can be in the trucking business, what goods they can and can't transport, where they can haul them, and what rates they can charge their customers. Doing business as a Michigan trucker means playing an elaborate and costly game of "Mother, May I?" with state bureaucrats—filing forms and begging permission every step of the way.

The regulatory apparatus is not designed to protect the public from any harm. Rather, it is a means by which some of the regulated firms discourage newcomers and keep rates artificially high. One company, known as Federal Armored, Inc., ran afoul of these rules recently. A Public Service Commission ruling stripped the company of its right to do intrastate business in Michigan, resulting in its severance of more than 160 employees.

There were no public health or safety questions involved, no alleged fraud, and no complaints against Federal Armored by *any* of its customers or employees. The company's "crimes" boiled down to nothing more than charging customers *less* than the fixed rate and failing to file worthless paperwork with state regulators. The PSC itself brazenly asserted, "The absence of shipper objection . . . is irrelevant to Federal Armored's fitness" to do business in Michigan!

Why is it that people who go to work for government as officeholders or bureaucrats are known as "public servants"—even when highly paid? Why isn't "public servant" a term reserved for those entrepreneurial heroes in the *private* sector who create jobs, invent machines, cure illnesses, build businesses, serve customers, and pay the bills of government through their taxes? When the barriers erected by "public servants" crush the self-reliance of citizens like those at Federal Armored, where is the outcry of righteous indignation from the public or the press?

What regulators did to Federal Armored —and what countless other acts of government inflict upon people every day—is morally repugnant. Such deeds are throwbacks to less enlightened times when the common thief and the uncommon prince were indistinguishable but for their robes.

The campaign to restore our liberties and enhance our economic opportunities must incorporate a personal, moral dimension at its core. A law which suffocates the aspirations of enterprising men and women is more than bad economics. In a free society, it ought to be a moral outrage. □

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THE FREEMAN
IDEAS ON LIBERTY

THE FASCIST EPITHET

by Mack Tanner

Epithets are always good political weapons. If they are well chosen, they paint the opponent's reputation so black that further discussion is no longer required. If an opponent is inherently evil, then one has no reason to expect that rational discussion and debate would produce any useful result. Therefore, once a political opponent has been appropriately labeled, that person can be shouted down and driven from the podium without the need of further discussion.

Using epithets is obviously not engaging in logical political discourse, but politics isn't about logic, it's about winning and who gets to use legal force for their own advantage. Anyone who looks seriously at the American political system can only conclude that elections are won on an emotional level, not through rational debate. Usually, the politician who scares the voter the most is the one who wins.

Lovers of individual freedom generally agree that politicians, news commentators, and government bureaucrats who want to increase the size and power of government, raise taxes, further limit personal freedom, and give us socialized medicine are misguided at best, or crooked, power-hungry thieves at worst. If we believe that they support evil ideas, shouldn't we use an epithet that makes it clear what we think about them? Ultimately, freedom can only be won by those willing to fight for it, and the first weapon in any fight are fighting words.

Mr. Tanner, who lives in Moscow, Idaho, is a retired American diplomat and free-lance writer.

We need a single word epithet that paints the enemy as black as we believe the enemy to be.

Words like *statist*, *liberal*, or *conservative* simply don't get the blood boiling. Use them, and the listener yawns and continues to ignore well-reasoned arguments. More important perhaps, the targets of such sweet-sounding epithets usually accept the words as compliments that explain what they consider themselves to be.

The Best Epithet

To be effective, an epithet must make the target angry. An effective epithet must also have a basis in truth. The best epithet is one that describes a truth that the targets refuse to recognize about themselves and their political positions. By making an angry target deny the truth of the epithet or to try to explain it away, we might finally get a rational, logical discussion going as we explain why the epithet does honestly apply.

There is a very appropriate epithet that fits perfectly everyone who favors more government control of business, the economy, society, and health care. But first some political and philosophical background.

With the collapse of Communism as a threat to our modern society, it's not surprising that the two most damning political epithets that can be hurdled these days are *Fascist* and *Nazi*, the second epithet being an even more dangerous mutation of the first evil. Those who usually throw those hated epithets think they know what they accuse

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an opponent of being. In the popular mind, the two words are assumed to mean anyone who is a bigot, a racist, an extreme nationalist, or a political ultra-conservative.

Understanding Fascism

If we examine the political evolution that produced fascism, we find that fascism has an entirely different meaning. Once we understand what that meaning is, it's easy to understand why it is that while the epithet *fascist* is so popular with liberal politicians and commentators, hence little is ever written about fascism as a political philosophy. Liberal statists don't want the public to know that when they point the finger of fascism at someone else, they are pointing four fingers at themselves.

From a logical perspective, a fascist may be a racist, a bigot, an ultranationalist, a violent sociopath, or a blond Swede, but all racists, bigots, ultranationalists, sociopaths, and blond Swedes are not fascists. Fascism is a specific form of government, just as feudalism, monarchy, socialism, communism, and constitutional democracy are specific forms of government.

The roots of fascism are found in the French Revolution. While the American Revolution was founded on the philosophical idea that all men should be free, and that the primary role of government should be to guarantee that freedom, the intellectuals and politicians of the French Revolution argued that government should guarantee not only freedom, but economic equality as well.

While this is an appealing idea, the reality is that as government goals, freedom and economic equality are mutually exclusive. When people are free, those with greater intellectual capacities, creative abilities, physical prowess, initiative, or good luck will probably end up with the most economic wealth. The only way a government can create economic equality is to take wealth forcibly from the most productive members of society and redistribute it to less productive citizens. The economically successful lose their freedom so that the unsuccessful can share the wealth. The more economic equality the government guarantees, the more it must restrict the freedoms of its most productive people.

Socialism

The original political philosophy that promised both freedom and equality was socialism. Socialism proved to be a powerful rallying cry for revolution in economically backward countries where tyrants ruled, especially in countries where foreign tyrants ruled. However, intellectual supporters of the socialist dream soon discovered that it was hard to sell socialism in democracies or even in those nondemocratic countries where rulers had allowed the population a degree of economic freedom.

The voters in the Western democracies not only didn't want socialism, they were terrified of the prospects of a violent socialist revolution. In the United States, most citizens quickly decided that socialism was *un-American*.

Not willing to give up the impossible dream that a government could guarantee both freedom and equality, the utopians proposed an alternative to socialism: the idea of a strong, nationalistic government which would allow private enterprise and privately owned property, but would control and regulate it to insure that the property owners and entrepreneurs served the public good instead of their own selfish greed. Under this scheme, politicians promised that they could achieve the goals of socialism without the otherwise inevitable pain of revolution and confiscation.

It is not surprising that these utopian intellectuals began calling themselves *Progressives*. What they were proposing was progressive socialism rather than revolutionary socialism. They also pre-empted the word *liberal*, redefining the liberalism of the American founders which held individual freedom as the ideal of a limited government into modern American liberalism in which the government limits individual freedom in order to insure economic equality.

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The Promises of Progressivism

Academic economists like John Maynard Keynes threw in the promise that a strong central government could also smooth out economic cycles of boom prosperity followed by bust depression. *Progressive* democratic government thus not only promised freedom and equality, but also the good life of economic prosperity and perpetual growth.

The liberal democracies proved to be especially vulnerable to this philosophy which promised the voters significant improvements in their economic station without the need for great sacrifice on their part. While the successful and wealthy did have to pay the bill, initially, the bill presented extracted only a minor portion of their personal wealth and they accepted the argument that it was a cheap price if they were to avoid a socialist revolution.

In America, this system of progressive, socially engineered economic democracy was adopted so slowly that only a few thinkers recognized that it represented a total and complete break from the philosophy of government as espoused by those who wrote the American constitution. By the mid-1930s, this *progressive* idea that a strong government could resolve all problems of human society had thoroughly permeated the popular political thought of Western democratic governments.

Fascism

This philosophical counterpoint to socialism in which people were permitted to retain property and personal wealth while the state regulated how private property and wealth would be used to achieve the common good was given a name by Benito Mussolini when he founded the Fascist Party in Italy. He promised to give the Italians the same things that Roosevelt promised to give Americans. Mussolini called the political process for doing that *Fascism*.

In like manner, Adolf Hitler promised the Germans equality and prosperity through regulation and control of private wealth and industry. Hitler called his movement National Socialism (which was shortened to the acronym Nazi) because he was promising the same utopian benefits as the socialists promised, but without the pain of the immediate confiscation of all property and wealth. Like the democratic progessives, the fascist tyrants argued that the fascist way to prosperity and equality was the only hope for defeating the Communists.

Fascism was and is a political philosophy in which a strong central government permits, but regulates and taxes, private wealth and property in order to achieve the utopian socialist ideal.

Hitler played on frustrated national pride and used hate and envy of the German Jewish population in selling his fascist dream. To be a fascist one must not necessarily hate the same things the Germans hated at the time Hitler rose to power. But hatred is an inevitable by-product of fascism.

A primary fallacy of fascism and socialism is the belief that intelligent, selfless people can be found within any society—people who are so wise and knowledgeable that they can determine what constitutes the common good and what individual sacrifices are necessary to achieve that good. The fallacy dictates that such wise citizens are morally entitled to do whatever is necessary to ensure that all other members of the society make the necessary sacrifices. Other members of the society have a moral obligation to make the personal sacrifices, even if in making them, they suffer a significant decrease in the level of their own comfort and personal happiness. By definition, anyone who resists making such a personal sacrifice is deemed an immoral, evil, selfish beast who deserves whatever punishment the state decides to inflict.

Because fascist controls of business and private property can never produce the promised result of equality, freedom, and economic prosperity any more than socialist promises can, fascist politicians must always be looking for someone to blame for their failures while continuing to promise even greater future economic and social

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miracles. Both socialists and fascists must demonize those who object to the state taking over control of their property, businesses, and lives in order to justify the violence that the political leaders will inflict on them. Fascism and socialism grow only in the soil of envy and hate.

Like socialism, fascism has fatal flaws that can lead to excesses like those of Nazi Germany just as socialism led to the gross excesses of violence in the Soviet Union, China, Cuba, and on down to the killing fields of Cambodia. But the excesses of racism, the violent suppression of minority views, ruling class elitism, and aggression against other states are symptoms of fascism, not descriptions of the political-economic system.

Hitler picked the German Jews as hate targets. Modern fascist politicians demonize Wall Street bankers, entrepreneurs, well-paid CEOs, pharmaceutical and insurance companies, illegal immigrants, creative financial managers, gun owners, fundamentalist religious leaders, and dead white guys who wrote criticism pointing out the fallacies of fascism and socialism.

World War II started out as a confrontation between the two competing utopian systems for building a brave new world. Hitler expected that the democratic fascist countries of England and the United States would either support his efforts, or remain neutral. How we ended up on the side of the most extreme socialist country in the world rather than the most extreme fascist country requires a complicated historical examination beyond the scope of this essay.

Nevertheless, once Germany was defeated, the ongoing world-wide struggle immediately reverted back to a conflict between fascism and socialism and continued on for another 45 years. The primary issue of the Cold War was never freedom or slavery; it was whether total state control would be achieved through Communist revolution or through progressive subversion of the democratic process.

Now that socialism has collapsed under its own weight, we will next learn how long it will take democratic fascism to collapse because of the same fatal flaws in economic and political theory that are common to all socialist systems.

Much of modern American liberalism is fascism and always has been. We ought to start calling it that. By calling it what it really is, we can draw attention to what is happening in our country and explain why we keep losing freedom while violence and hate grow and spread through our society. □

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THE FREEMAN
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ECONOMIC FASCISM

by Thomas J. DiLorenzo

When most people hear the word "fascism" they naturally think of its ugly racism and anti-Semitism as practiced by the totalitarian regimes of Mussolini and Hitler. But there was also an economic policy component of fascism, known in Europe during the 1920s and '30s as "corporatism," that was an essential ingredient of *economic* totalitarianism as practiced by Mussolini and Hitler. So-called corporatism was adopted in Italy and Germany during the 1930s and was held up as a "model" by quite a few intellectuals and policy makers in the United States and Europe. A version of economic fascism was in fact adopted in the United States in the 1930s and survives to this day. In the United States these policies were not called "fascism" but "planned capitalism." The word fascism may no longer be politically acceptable, but its synonym "industrial policy" is as popular as ever.

The Free World Flirts With Fascism

Few Americans are aware of or can recall how so many Americans and Europeans viewed economic fascism as the wave of the future during the 1930s. The American Ambassador to Italy, Richard Washburn Child, was so impressed with "corporatism" that he wrote in the preface to Mussolini's 1928 autobiography that "it may be shrewdly forecast that no man will exhibit dimensions of permanent greatness equal to Mussolini. . . . The Duce is now the greatest figure of this sphere and time."[1] Winston Churchill wrote in 1927 that "If I had been an Italian I am sure I would have been entirely with you" and "don the Fascist black shirt."[2] As late as 1940, Churchill was still describing Mussolini as "a great man."

U.S. Congressman Sol Bloom, Chairman of the House Foreign Relations Committee, said in 1926 that Mussolini "will be a great thing not only for Italy but for all of us if he succeeds. It is his inspiration, his determination, his constant toil that has literally rejuvenated Italy . . ."[3]

One of the most outspoken American fascists was economist Lawrence Dennis. In his 1936 book, *The Coming American Fascism*, Dennis declared that defenders of "18th-century Americanism" were sure to become "the laughing stock of their own countrymen" and that the adoption of economic fascism would intensify "national spirit" and put it behind "the enterprises of public welfare and social control." The big stumbling block to the development of economic fascism, Dennis bemoaned, was "liberal norms of law or constitutional guarantees of private rights."

Certain British intellectuals were perhaps the most smitten of anyone by fascism. George Bernard Shaw announced in 1927 that his fellow "socialists should be delighted to find at last a socialist [Mussolini] who speaks and thinks as responsible rulers do."[4] He helped form the British Union of

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Fascists whose "Outline of the Corporate State," according to the organization's founder, Sir Oswald Mosley, was "on the Italian Model." While visiting England, the American author Ezra Pound declared that Mussolini was "continuing the task of Thomas Jefferson."[5]

Thus, it is important to recognize that, as an *economic* system, fascism was widely accepted in the 1920s and '30s. The evil deeds of individual fascists were later condemned, but the practice of economic fascism never was. To this day, the historically uninformed continue to repeat the hoary slogan that, despite all his faults, Mussolini at least "made the trains run on time," insinuating that his interventionist industrial policies were a success.

The Italian "Corporatist" System

So-called "corporatism" as practiced by Mussolini and revered by so many intellectuals and policy makers had several key elements:

The state comes before the individual. *Webster's New Collegiate Dictionary* defines fascism as "a political philosophy, movement, or regime that exalts nation and often race above the individual and that stands for a centralized, autocratic government." This stands in stark contrast to the classical liberal idea that individuals have natural rights that pre-exist government; that government derives its "just powers" only through the consent of the governed; and that the principal function of government is to protect the lives, liberties, and properties of its citizens, not to aggrandize the state.

Mussolini viewed these liberal ideas (in the European sense of the word "liberal") as the antithesis of fascism: "The Fascist conception of life," Mussolini wrote, "stresses the importance of the State and accepts the individual only in so far as his interests coincide with the State. It is opposed to classical liberalism [which] denied the State in the name of the individual; Fascism reasserts the rights of the State as expressing the real essence of the individual."[6]

Mussolini thought it was unnatural for a government to protect individual rights: "The maxim that society exists only for the well-being and freedom of the individuals composing it does not seem to be in conformity with nature's plans."[7] "If classical liberalism spells individualism," Mussolini continued, "Fascism spells government."

The essence of fascism, therefore, is that government should be the master, not the servant, of the people. Think about this. Does anyone in America really believe that this is not what we have now? Are Internal Revenue Service agents really our "servants"? Is compulsory "national service" for young people, which now exists in numerous states and is part of a federally funded program, not a classic example of coercing individuals to serve the state? Isn't the whole idea behind the massive regulation and regimentation of American industry and society the notion that individuals should be forced to behave in ways defined by a small governmental elite? When the nation's premier health-care reformer recently declared that heart bypass surgery on a 92-year-old man was "a waste of resources," wasn't that the epitome of the fascist ideal—that the state, not individuals, should decide whose life is worthwhile, and whose is a "waste"?

The U.S. Constitution was written by individuals who believed in the classical liberal philosophy of individual rights and sought to protect those rights from governmental encroachment. But since the fascist/collectivist philosophy has been so influential, policy reforms over the past half century have all but abolished many of these rights by simply ignoring many of the provisions in the Constitution that were designed to protect them. As legal scholar Richard Epstein has observed: "[T]he eminent domain . . . and parallel clauses in the Constitution render . . . suspect many of the heralded reforms and institutions of the twentieth century: zoning, rent control, workers' compensation laws, transfer payments, progressive taxation."[8] It is impor-

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tant to note that most of these reforms were initially adopted during the '30s, when the fascist/collectivist philosophy was in its heyday.

Planned industrial "harmony." Another keystone of Italian corporatism was the idea that the government's interventions in the economy should not be conducted on an ad hoc basis, but should be "coordinated" by some kind of central planning board. Government intervention in Italy was "too diverse, varied, contrasting. There has been disorganic . . . intervention, case by case, as the need arises," Mussolini complained in 1935.[9] Fascism would correct this by directing the economy toward "certain fixed objectives" and would "introduce order in the economic field."[10] Corporatist planning, according to Mussolini adviser Fausto Pitigliani, would give government intervention in the Italian economy a certain "unity of aim," as defined by the government planners.[11]

These exact sentiments were expressed by Robert Reich (currently the U.S. Secretary of Labor) and Ira Magaziner (currently the federal government's health care reform "Czar") in their book *Minding America's Business*.[12] In order to counteract the "untidy marketplace," an interventionist industrial policy "must strive to integrate the full range of targeted government policies—procurement, research and development, trade, antitrust, tax credits, and subsidies—into a coherent strategy. . . ."

Current industrial policy interventions, Reich and Magaziner bemoaned, are "the product of fragmented and uncoordinated decisions made by [many different] executive agencies, the Congress, and independent regulatory agencies. . . . There is no integrated strategy to use these programs to improve the . . . U.S. economy."[14]

In his 1989 book, *The Silent War*, Magaziner reiterated this theme by advocating "a coordinating group like the national Security Council to take a strategic national industrial view."[15] The White House has in fact established a "National Economic Security Council." Every other advocate of an interventionist "industrial policy" has made a similar "unity of aim" argument, as first described by Pitigliani more than half a century ago.

Government-business partnerships. A third defining characteristic of economic fascism is that private property and business ownership are permitted, but are in reality controlled by government through a business-government "partnership." As Ayn Rand often noted, however, in such a partnership government is always the senior or dominating "partner."

In Mussolini's Italy, businesses were grouped by the government into legally recognized "syndicates" such as the "National Fascist Confederation of Commerce," the "National Fascist Confederation of Credit and Insurance," and so on. All of these "fascist confederations" were "coordinated" by a network of government planning agencies called "corporations," one for each industry. One large "National Council of Corporations" served as a national overseer of the individual "corporations" and had the power to "issue regulations of a compulsory character."[16]

The purpose of this byzantine regulatory arrangement was so that the government could "secure collaboration . . . between the various categories of producers in each particular trade or branch of productive activity."[17] Government-orchestrated "collaboration" was necessary because "the principle of private initiative" could only be useful "in the service of the national interest" as defined by government bureaucrats.[18]

This idea of government-mandated and -dominated "collaboration" is also at the heart of all interventionist industrial policy schemes. A successful industrial policy, write Reich and Magaziner, would "require careful coordination between public and private sectors."[19] "Government and the private sector must work in tandem."[20] "Economic success now depends to a high degree on coordination, collaboration, and careful strategic choice," guided by government.[21]

The AFL-CIO has echoed this theme, advocating a "tripartite National Reindus-

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trialization Board—including representatives of labor, business, and government" that would supposedly "plan" the economy.[22] The Washington, D.C.-based Center for National Policy has also published a report authored by businessmen from Lazard Freres, du Pont, Burroughs, Chrysler, Electronic Data Systems, and other corporations promoting an allegedly "new" policy based on "cooperation of government with business and labor."[23] Another report, by the organization "Rebuild America," co-authored in 1986 by Robert Reich and economists Robert Solow, Lester Thurow, Laura Tyson, Paul Krugman, Pat Choate, and Lawrence Chimerine urges "more teamwork" through "public-private partnerships among government, business and academia."[24] This report calls for "national goals and targets" set by government planners who will devise a "comprehensive investment strategy" that will only permit "productive" investment, as defined by government, to take place.

Mercantilism and protectionism. Whenever politicians start talking about "collaboration" with business, it is time to hold on to your wallet. Despite the fascist rhetoric about "national collaboration" and working for the national, rather than private, interests, the truth is that mercantilist and Protectionist practices riddled the system. Italian social critic Gaetano Salvemini wrote in 1936 that under corporatism, "it is the state, i.e., the taxpayer, who has become responsible to private enterprise. In Fascist Italy the state pays for the blunders of private enterprise."[25] As long as business was good, Salvemini wrote, "profit remained to private initiative."[26] But when the depression came, "the government added the loss to the taxpayer's burden. Profit is private and individual. Loss is public and social."[27]

The Italian corporative state, *The Economist* editorialized on July 27, 1935, "only amounts to the establishment of a new and costly bureaucracy from which those industrialists who can spend the necessary amount, can obtain almost anything they want, and put into practice the worst kind of monopolistic practices at the expense of the little fellow who is squeezed out in the process." Corporatism, in other words, was a massive system of corporate welfare. "Three-quarters of the Italian economic system," Mussolini boasted in 1934, "had been subsidized by government."[28]

If this sounds familiar, it is because it is exactly the result of agricultural subsidies, the Export-Import bank, guaranteed loans to "preferred" business borrowers, protectionism, the Chrysler bailout, monopoly franchising, and myriad other forms of corporate welfare paid for directly or indirectly by the American taxpayer.

Another result of the close "collaboration" between business and government in Italy was "a continual interchange of personnel between the . . . civil service and private business."[29] Because of this "revolving door" between business and government, Mussolini had "created a state within the state to serve private interests which are not always in harmony with the general interests of the nation."[30]

Mussolini's "revolving door" swung far and wide:

> Signor Caiano, one of Mussolini's most trusted advisers, was an officer in the Royal Navy before and during the war; when the war was over, he joined the Orlando Shipbuilding Company; in October 1922, he entered Mussolini's cabinet, and the subsidies for naval construction and the merchant marine came under the control of his department. General Cavallero, at the close of the war, left the army and entered the Pirelli Rubber Company . . . ; in 1925 he became undersecretary at the Ministry of War; in 1930 he left the Ministry of War, and entered the service of the Ansaldo armament firm. Among the directors of the big . . . companies in Italy, retired generals and generals on active service became very numerous after the advent of Fascism.[31]

Such practices are now so common in the United States—especially in the defense industries—that it hardly needs further comment.

From an economic perspective, fascism

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meant (and means) an interventionist industrial policy, mercantilism, protectionism, and an ideology that makes the individual subservient to the state. "Ask not what the State can do for you, but what you can do for the State" is an apt description of the economic philosophy of fascism.

The whole idea behind collectivism in general and fascism in particular is to make citizens subservient to the state and to place power over resource allocation in the hands of a small elite. As stated eloquently by the American fascist economist Lawrence Dennis, fascism "does not accept the liberal dogmas as to the sovereignty of the consumer or trader in the free market. . . . Least of all does it consider that market freedom, and the opportunity to make competitive profits, are rights of the individual." Such decisions should be made by a "dominant class" he labeled "the elite."[32]

German Economic Fascism

Economic fascism in Germany followed a virtually identical path. One of the intellectual fathers of German fascism was Paul Lensch, who declared in his book *Three Years of World Revolution* that "Socialism must present a conscious and determined opposition to individualism."[33] The philosophy of German fascism was expressed in the slogan, *Gemeinnutz geht vor Eigennutz*, which means "the common good comes before the private good." "The Aryan is not greatest in his mental qualities," Hitler stated in *Mein Kampf*, but in his noblest form he "willingly subordinates his own ego to the community and, if the hour demands, even sacrifices it."[34] The individual has "not rights but only duties."[35]

Armed with this philosophy, Germany's National Socialists pursued economic policies very similar to Italy's: government-mandated "partnerships" between business, government, and unions organized by a system of regional "economic chambers," all overseen by a Federal Ministry of Economics.

A 25-point "Programme of the Party" was adopted in 1925 with a number of economic policy "demands," all prefaced by the general statement that "the activities of the individual must not clash with the interests of the whole . . . but must be for the general good."[36] This philosophy fueled a regulatory assault on the private sector. "We demand ruthless war upon all those whose activities are injurious to the common interest," the Nazis warned.[37] And who are these on whom "war" is to be waged? "Common criminals," such as "usurers," i.e., bankers, and other "profiteers," i. e., ordinary businessmen in general. Among the other policies the Nazis demanded were abolition of interest; a government-operated social security system; the ability of government to confiscate land without compensation (wetlands regulation?); a government monopoly in education; and a general assault on private-sector entrepreneurship which was denounced as the "Jewish materialist spirit."[38] Once this "spirit" is eradicated, "The Party . . . is convinced that our nation can achieve permanent health from within only on the principle: the common interest before self-interest."[39]

Conclusions

Virtually all of the specific economic policies advocated by the Italian and German fascists of the 1930s have also been adopted in the United States in some form, and continue to be adopted to this day. Sixty years ago, those who adopted these interventionist policies in Italy and Germany did so because they wanted to destroy economic liberty, free enterprise, and individualism. Only if these institutions were abolished could they hope to achieve the kind of totalitarian state they had in mind.

Many American politicians who have advocated more or less total government control over economic activity have been more devious in their approach. They have advocated and adopted many of the same policies, but they have always recognized that direct attacks on private property, free enterprise, self-government, and individual freedom are not politically palatable to the

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majority of the American electorate. Thus, they have enacted a great many tax, regulatory, and income-transfer policies that achieve the ends of economic fascism, but which are sugar-coated with deceptive rhetoric about their alleged desire only to "save" capitalism.

American politicians have long taken their cue in this regard from Franklin D. Roosevelt, who sold his National Recovery Administration (which was eventually ruled unconstitutional) on the grounds that "government restrictions henceforth must be accepted not to hamper individualism but to protect it."[40] In a classic example of Orwellian doublespeak, Roosevelt thus argued that individualism must be destroyed in order to protect it.

Now that socialism has collapsed and survives nowhere but in Cuba, China, Vietnam, and on American university campuses, the biggest threat to economic liberty and individual freedom lies in the new economic fascism. While the former Communist countries are trying to privatize as many industries as possible as fast as they can, they are still plagued by governmental controls, leaving them with essentially fascist economies: private property and private enterprise are permitted, but are heavily controlled and regulated by government.

As most of the rest of the world struggles to privatize industry and encourage free enterprise, we in the United States are seriously debating whether or not we should adopt 1930s-era economic fascism as the organizational principle of our entire health care system, which comprises 14 percent of GNP. We are also contemplating business-government "partnerships" in the automobile, airlines, and communications industries, among others, and are adopting government-managed trade policies, also in the spirit of the European corporatist schemes of the 1930s.

The state and its academic apologists are so skilled at generating propaganda in support of such schemes that Americans are mostly unaware of the dire threat they pose for the future of freedom. The road to serfdom is littered with road signs pointing toward "the information superhighway," "health security," "national service," "managed trade," and "industrial policy." □

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THE FREEMAN
IDEAS ON LIBERTY

THE FAILURE OF ANTITRUST POLICY

by D. T. Armentano

The recently proposed mega-mergers in the telecommunications industry may usher in a more activist period of antitrust regulation. This would be unfortunate since antitrust is a generally failed and discredited policy. The laws, allegedly enacted to protect consumers, have been used historically to harass efficient corporations that have increased market output and lowered market price.

How could a public policy allegedly designed to help consumers have come to hurt them instead? One explanation is that antitrust regulation was never intended to protect consumers. It was intended to shield some firms from the efficiency of other firms and, like tariffs, was fundamentally protectionist. This public-choice perspective on the origins of antitrust law is reinforced by recent historical research and by the fact that more than 90 percent of all antitrust litigation involves one private firm suing another. If it looks, walks, and quacks like a special-interest duck, it's probably a special-interest duck.

A second way to resolve the antitrust paradox is to argue that the regulators, the courts, and the academics that rationalized antitrust enforcement were fundamentally confused about certain basic economic concepts such as "competition" and "monopoly power." When a firm lowers its price, is that "competition" or is it an attempt to monopolize? When a firm gains market share, is that evidence of relative efficiency or is it an attempt to monopolize in restraint of trade? Is advertising pro-competitive or anti-competitive? Is research spending and innovation an important element of competition, or is it a "barrier to entry" that restricts competition and harms consumers? Clearly, theoretical ambiguities could contribute to a massively misdirected antitrust enforcement effort. Again, the antitrust paradox would be resolved.

Bad Theory, Bad Policy

To understand how theoretical confusion can lead to inappropriate public policy, that is, how *bad* theory can lead to *bad* policy, it might be useful to focus attention on the dominant micro-economic models and the generally accepted welfare analysis. The perfectly competitive equilibrium model dominated micro-economic theory in the 1940s, '50s, and '60s, and departures from that model's assumption or economic performance were often used to rationalize antitrust intervention. Generations of students who studied antitrust economics (or "industrial organization" as the subject came to be called) were told that "competitively" structured markets tended inevita-

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bly toward an equilibrium condition where price, marginal cost, and minimum average cost were all equal and where, by definition, consumer welfare was maximized.

According to this approach, consumer welfare could *not* be maximized if products were differentiated or if firms advertised; if some firms achieved economies of scale and scope that other firms could not achieve; or if high market share (or collusion) resulted in some "control" over market price. Firms with "monopoly" power "misallocated resources" (relative to perfect competition) and became legitimate candidates for antitrust prosecution.

The theoretical predictions of antitrust economics were accompanied by empirical research and by statistical (mostly regression) analysis. Early industrial organization economists were enthusiastic supporters of antitrust regulation because they believed that there were strong statistical correlations between market share and rates of return. Presumably "dominant firms" in concentrated markets tended to earn long-run monopoly profits; consumers could be made better off by an antitrust policy aimed at reducing market "concentration." Thus micro-economic theory and hard empirical evidence were alleged to have rationalized a vigorous antitrust (especially anti-merger) enforcement effort.

Three important strands of criticism of the tradionalist industrial organization paradigm developed in the 1970s and they help explain a modest change in antitrust enforcement in the 1980s. First, "new learning" critics (mostly Chicago-school economists) challenged many of the older empirical conclusions concerning mergers, market concentration, and profitability. With appropriate adjustments for time and sample size, much of the alleged correlations between market concentration and profit disappeared. Second, revisionist case analysis demonstrated that antitrust regulation was often employed against firms that had increased their outputs and lowered their prices. Third, the basic theoretical paradigm itself—the static equilibrium models and their welfare analysis—was subject to important criticism. The best of that criticism was based on insights associated prominently with members of the Austrian School of Economics.

Austrian Theory

Austrian economists generally held that real-world departures from perfect competition were not necessarily examples of market failure, nor could such departures rationalize antitrust intervention. Products should be differentiated if consumer tastes are differentiated; firms should advertise if information isn't perfect; lower costs achieved by innovative firms should keep high-cost firms out of markets. All of these practices were elements of a rivalrous discovery process and were not resource misallocating. That they were inconsistent with the perfectly competitive equilibrium condition was irrelevant since that condition itself was entirely irrelevant for policy purposes.

Further, Austrian economists held that the empirical studies that attempt to measure monopoly power or social welfare loss were fundamentally misleading. The divergence of price from some measure of accounting cost was a disequilibrium condition and represented nothing sinister. Indeed, such divergencies were necessary in order to provide information and incentives to entrepreneurs to move resources to their highest valued use. Business organizations that made above-normal profits were simply more efficient at managing risk, discovering preferences, and reducing costs over the long run.

In addition, Austrian economists argued that the condemnation of the dominant firm in the industrial organization literature was thoroughly contrived. The source of that contrivance was the equation of the dominant firm with the textbook monopoly. Yet the textbook monopolist misallocated resources by definition, that is, because of strict *equilibrium* assumptions that ruled out the entry of other suppliers. In the absence of equilibrium assumptions—or legal barriers to entry—it was not even possible to

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define a monopoly price unambiguously, much less explain why such firms would have incentives to operate inefficiently. The dominant firm antitrust cases demonstrated that such organizations gain and hold market share by lowering prices and increasing outputs, precisely the opposite conduct and performance predicted by conventional monopoly theory.

Finally, costs and benefits for Austrian economists were always personal and subjective; they simply did not lend themselves to interpersonal aggregation or comparison. This basic Austrian insight obliterated all rule of reason and welfare analysis in antitrust regulation. For example, the conventional rule of reason approach assumes that regulators can promote the public welfare by permitting mergers whose social benefits outweigh their social costs, or by condemning price agreements whose social costs likely exceed benefits. For radical Austrian subjectivists, however, such utilitarian cost/benefit calculations were simply impossible since the data could not be known to outside observers and could not be aggregated across different individuals or firms.

It is clear, then, that the Austrian theoretical perspective is extremely skeptical of traditional antitrust economics and of so-called "vigorous" antitrust enforcement. In the current case of the proposed mega-media mergers, they should be allowed to succeed or fail on their own merits. Public policy should be essentially neutral with respect to inter-firm business cooperation, mergers, and acquisitions.

The Essence of the "Monopoly Problem"

There *is* a "monopoly problem" in the U.S. economy but it is not to be found in purely private market activity such as business mergers. The essence of the monopoly problem is the existence of government *legal* impediments to rivalry or cooperation. Legal barriers to entry and prohibitions on inter-firm cooperation prevent the market from generating, disseminating, and using the information that the traders require for efficient plan coordination. Non-legal barriers and so-called restrictive agreements (such as resale price maintenance) simply don't have this effect on private plan coordination. Since antitrust regulations unambiguously lower the efficiency of the market process, and since they additionally restrict individual liberty and property rights, there's little reason to support the continuation of such regulation. In the name of efficiency and liberty, all antitrust law should be repealed. □

A Lesson from the Past: The Silver Panic of 1893

by Lawrence W. Reed

Last year marked the 100th anniversary of the beginning of the second greatest cyclical depression in American history. Businesses collapsed, banks closed, unemployment soared.

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THE FREEMAN
IDEAS ON LIBERTY

LOSING TOUCH

by Donald Boudreaux

I know two veterans of World War II. Both are exceptionally fine and patriotic Americans. One, call him Bill, flew as a navigator on a B-29 bomber based in the Pacific. The other, call him Joe, fought as an infantryman in Europe. Fortunately, neither was injured during the war. Although alike in many ways, a notable difference between Bill and Joe is that Bill is forever and with great relish recalling his bomber days, while Joe steadfastly refuses to mention his wartime experiences. Odd as it may seem, this difference between Bill and Joe contains an important lesson about big government and democratic politics.

Politicians, Like Bombers, Seldom See Their Victims . . .

I once asked Bill why he attended so many reunions with his former crew members and why he never tired of recollecting his war years. And why does Joe say absolutely nothing about his time in the army? Bill's response is revealing. "Joe fought in combat, face to face with the enemy. He saw lots of blood and guts and death and suffering. But for me, the war was great. Nothing bad happened to me. My buddies and I flew lots of missions over Japan and nearby islands. All I ever saw were little puffs of smoke on the ground where our bombs hit."

Reflecting on Bill's response, I realized that politicians and their bureaucratic appointees are much like bomber crews: they wreak much havoc, but seldom experience first hand the consequences of their actions. As a result, political activity is generally pleasurable. But if governing were more like infantry service and less like bombing runs—that is, if politicians witnessed firsthand all the suffering unleashed by government taxation and regulation—politicians would surely be less enthusiastic about their schemes.

Agricultural subsidies are a good example. Farm-price supports inflict all sorts of harm on millions of people. Consumers pay unnecessarily higher prices for food while taxpayers dole out more in taxes to support and administer these programs. These higher prices and heavier tax burdens, in turn, have a significant injurious secondary effect: fewer resources are available for producing other worthwhile goods and services. Also, poor people shoulder a disproportionate share of this unnecessary wealth destruction because they spend larger percentages of their incomes on food than do wealthy citizens. In short, the nation is a poorer and more unjust place because of agricultural subsidies.

Politicians know that agricultural subsidies are destructive. Washington's unremitting stream of partisan bombast and simple-minded sound bites should not be taken as evidence that politicians are stupid. They aren't. Most politicians are quite aware that agricultural subsidies confiscate enormous wealth from large numbers of people in order to give it—after much skimming by the

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bureaucracy—to a small number of politically influential farmers in a way that works against the public interest. Yet there appears to be no end in sight to such wasteful programs.

Some observers succumb to utter cynicism and argue that politicians are inherently evil. While I don't deny that representative democracy tends to select peculiar types of people for political office—perhaps people who are, typically, a bit more hungry for power and fame than is the average citizen—I don't believe that politicians' character flaws are responsible for the interest-group feeding frenzy that today characterizes democratic government.

Few politicians are indifferent to human suffering and misfortune. Most politicians in the United States come from solid middle-class backgrounds, have loving and beloved families and dear friends, and wouldn't dream of mistreating people they deal with personally. I daresay the personal values most politicians possess differ imperceptibly from the personal values motivating most of middle-class America. This is why, with straight faces, nearly every politician can look squarely into a camera's lens and insist that he or she is a good person who only wants to do what's right. Friends of liberty do their cause no favors by exaggerating the moral shortcomings of politicians or by portraying them as inherently stupid, fiendish, or sinister.

Nevertheless, politicians do many harmful things. The reason, I believe, is that—like the destruction wrought by bombers—the ill effects of most political acts are like little puffs of smoke. Politicians seldom come face to face with people whose suffering is perceptibly caused by government policies.

Of course, politicians do see stacks of statistics, charts, and graphs telling them (if they choose to pay attention) of the higher food prices caused by agricultural policies, as well as of the many other maladies inflicted by their programs. But such figures are faceless. These figures are to politicians what little puffs of smoke are to bombers: bombers know that tremendous human suffering occurs just beneath the little puffs of smoke, but because the bombers don't encounter this suffering up-close and personal, they are largely unaffected by it. Likewise, statistics, charts, and graphs seldom cause remorse or regret for politicians. It is relatively easy to harm others when you never see your victims face to face.

. . . But Politicians Do See Interest-Group Beneficiaries

The problem of faceless victims of government is compounded by the fact that there is a class of people that politicians do see face to face on a regular basis: members of organized interest groups. Interest groups are persistent in seeking special privileges from government. And such persistence pays off, partly because politicians are not diabolical miscreants. Most politicians are just like you and me: They are often willing to go out of their way to lend a hand to familiar and friendly faces. Politicians no doubt feel proud and gratified when familiar farming lobbyists shake their hands warmly, slap them on the back, and thank them for higher price supports. Just as politicians care little about victims they never see, they care very sincerely about those with whom they are in daily face-to-face contact.

It is human nature to favor friends and familiar acquaintances over unnamed, faceless others—other people encountered by politicians only as data points in various reports. The longer a politician remains in Washington (or in a state capital), the more his or her circle of friends and acquaintances comes to be composed of interest-group representatives and other politicians, all of whom are forever seeking special favors. In addition, extended time in office inevitably causes politicians to lose face-to-face contact with the folks back home—the ordinary folks, that is, rather than the special-interest groups.

Conclusion

If every politician actually saw the faces of his or her victims in addition to the faces

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of his or her interest-group clients, the political game would be far less biased against consumers and other persons who are not represented by lobbyists strolling the halls of government power. Unfortunately, the nature of interest-group politics is that only those groups with relatively few members can organize effectively to conduct face-to-face political lobbying of elected officials. Consequently, without some fundamental change in the scope of government or our political institutions, most citizens will continue to be victims of the policy bombs forever dropping out of Washington and state capitals. □

THE FREEMAN
IDEAS ON LIBERTY

A TAX DEDUCTION FOR EDUCATION

by Roy E. Cordato and Sheldon Richman

There is something fundamentally unfair about being penalized for choosing a private school or homeschooling for one's children. The penalty, of course, is that parents who wish to find alternatives to public schools must pay for education twice, first through local taxes and then through tuition or homeschooling expenses.

In light of the recent defeat of the Proposition 174 school-choice initiative in California, perhaps it is time to rethink the school-choice strategy. Even among advocates of choice, there have been those who have had doubts about educational vouchers. For decades they have warned that vouchers would be seen as a state subsidy to private schools and that that perception would be used to rationalize regulations from which private schools today are exempt. How, it will be asked, can "the public's money" be permitted to go to just anyone who starts a school? Most people won't think it should be allowed. Thus, they will accept as reasonable an array of regulations governing the hiring of teachers and curriculum.

Advocates of vouchers are aware of that criticism, and they tried to prevent new regulation in Prop 174. But that may have been its undoing. The *Economist* commented that the initiative "might well have passed if it had simply contained provisions requiring schools that received voucher money to meet some basic standards set by the authorities."

If so, advocates of vouchers who are concerned with the integrity of private schooling face a dilemma. What if the only voucher plan that has a chance of passing would make the private schools virtual carbon copies of the public schools? Surely, passing such a plan would not be worth the effort.

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What is needed is an alternative that cannot be mistaken for a subsidy, that cannot be used to rationalize regulation of private schools, and that will give parents at least some control over which schools their children attend.

A federal income tax deduction for private educational expenses would satisfy those criteria. Under this proposal, parents who finance their children's education directly from their own pockets would do so with pre-tax dollars. Similar to the way people contribute to an Individual Retirement Account, all parents could take advantage of this device, even if they do not itemize tax deductions. The deduction could also be available to those who paid for someone else's children's education. Tax-free education savings accounts would be another way to accomplish the same goal. Educational expenses would include tuition for any sectarian or secular private school and outlays for homeschooling.

Critics might object that an education deduction would be a subsidy because it would lower the relative cost of private education. But economic analysis suggests otherwise. Such a deduction should not be considered a subsidy but the amelioration of a general tax penalty on savings and investment. When businesses are allowed to deduct from their taxable income those expenditures intended to produce future income, those deductions are not considered a subsidy. The economics of tax policy argues that all investment expenditures, whether made by businesses or individuals, should be treated in that manner; today they clearly are not.

While some personal financial investments are not penalized (IRAs, and other retirement saving vehicles, for example), educational expenses are. Yet everyone from teachers' union president Albert Shanker to Milton Friedman acknowledges that education is an investment with some expected return. Its purpose is to enhance the future productivity and income of students. Thus, principles of efficient tax policy suggest that all personal expenditures on education, whether by parents for their children's primary, secondary, or higher education, or by adults for continuing education, should be made with pretax dollars. And since an education deduction is not a subsidy, there could be no reasonable church-state objection to including religious-based schooling.

A tax code that does not permit deductions for investment, including education, is biased against it. That seeming paradox —that apparently equal tax treatment of consumption and investment is in fact *unequal* treatment—is easily resolved.

Imagine Jane Smith is deciding what to do with the $1,000 she has just earned. She will compare the satisfaction she can obtain from direct consumption, say, buying a big-screen television, with the future income that could be generated by investing the money in a certificate of deposit (CD) at a bank. If the $1,000 is taxed at 28 percent, both the returns to consumption (the size of the television) and the returns to investment are reduced. But the tax will reduce the investment returns a second time, because the interest on the CD will also be taxed. In that way, the income tax penalizes investment more heavily than it does consumption and therefore biases Jane's decision against purchasing the CD. Were Jane allowed to buy the CD with pretax income, the tax penalty would be eliminated. It is that logic that supports business deductions for capital expenditures, including payments for employees' education, from taxable income. By forcing educational investment to be made with after-tax income, the government penalizes such expenditures in the same way it does Jane's CD investment.

What's Fair

Economics aside, the critics might persist in their belief that the tax deduction somehow would be unfair. But in a free society, the fairness argument cuts the other way. As a matter of principle, letting parents keep more of their own money to educate their children should not be thought of as unfair. The claim that such a deduction would be unfair is based on the premise that the

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Economic Reforms in Russia

Despite all the talk about market reforms in Russia, progress is painfully slow. After a conspicuous beginning in late 1991 and early 1992, when the Russian parliament had given President Boris Yeltsin emergency powers to introduce reforms by decree, all progress soon slowed to a crawl. The reformers gave way to the opposition calling for "stability" and "therapy" rather than "shock" and "breakthrough." By the end of 1993 the "stability politicians" held all important positions in government. Their leader, Prime Minister Victor Chernomyrdin, could claim victory announcing that "the period of market romanticism is over."

The Russian economy now is sinking gradually in a quagmire of hyperinflation and economic disintegration. Numerous small enterprises in trade, commerce, and the service industry have been privatized or newly founded; many are flourishing. The large state conglomerates, however, are holding fast to the old structure, sustained and maintained by the source of all economic comfort: the government. Although their output has plummeted, their management and labor costs remain immovably high. They would rather consume what little capital is left and then throw themselves on the mercy and social conscience of the "stability politicians" in power. They in turn prevail on the central bank officials to work overtime printing the money and creating the credits. The annual inflation rate is well over 1,000 percent.

Such rates of inflation could not be sustained for long in a capitalistic economy with fully developed capital markets. The monetary destruction would bring about disastrous upheavals in the economic, social, and political structure. The economies of less developed countries lacking viable capital markets, such as Russia and its former satellites, can endure high rates of inflation much longer. They are "cash-and-carry economies" without marketable bonds, mortgages, life insurance, and pension funds payable in the distant future. There is no middle class whose savings and substance are destroyed by monetary depreciation. Yet there are many widows and pensioners living on fixed incomes who are ground into poverty. Many Russians have been reduced to beggary. For the first time in many decades they can be seen at street corners asking for alms or charity. Hyperinflation in any system impairs economic life, vitiates public morality, and weakens democratic institutions. It is a grave threat to the infant democracy in Russia.

Inflation always is a short-run policy. It comes to an end when the monetary authorities finally come to their senses and halt their disastrous policies. A stabilization crisis is bound to follow throwing overextended, poorly managed enterprises into insolvency and bankruptcy. In Russia, all indications point toward total monetary destruction. The "stability politicians" in power who are perpetrating the inflation are unlikely to muster the will and courage needed to abandon their evil ways. It takes courage to sever the subsidy lines of the great conglomerates and shut down the printing presses. It takes firm courage and patient endurance to say "No" to the powerful pressure groups that wield much political power. Hundreds of enterprises working with primitive equip-

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ment and unmotivated labor would, in short order, close their gates and dismiss millions of workers. Today's unproductive employment would soon give way to visible unemployment, the make-believe production to the reality of plant closings.

It is ironic that the "stability party" in power is resorting to hyperinflation which is a virulent and vile destabilizer. Like the sorcerer who seeks to manipulate and control the course of nature by preternatural means, the inflators are likely to invoke wage and price stops and cast criminal spells on all malcontents. They soon may resort to indexation, that is, legislate price adjustments based on a cost-of-living index. The reform administration lifted many price controls in 1992; the stability administration is likely to reinstate them.

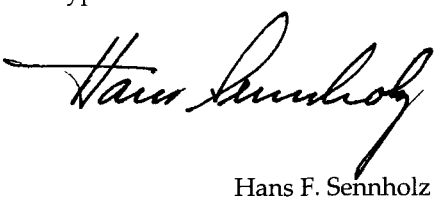
Inflationists like to conduct currency reforms. When goods prices soar at ever faster rates the inflators call for a currency reform. They may simply void some of the notes, that is, declare them worthless and illegal, or they may issue a new series of money replacing the old at a given ratio such as 1:100 or 1:1,000, or even greater. The Russian government already conducted one reform in July 1993 by voiding certain ruble notes. It thereby managed to impoverish many unsuspecting people while it printed new notes for the benefit of its bureaucracy and conglomerate clientele. The rate of inflation increased thereafter.

No matter how bleak the future of Russia may look at this time, the reforms must not be written off. Market reforms are visible everywhere. No political power would be in a position today to reverse the trend toward the market order. In the Moscow region alone more than 2,000 small enterprises have been privatized, hundreds have been founded. One thousand were sold to employee partnerships, another thousand sold at public auctions. Some seventy percent of the retail business and forty percent of small and medium manufacturing firms now are in private hands.

To privatize the conglomerates, the early Yeltsin team distributed privatization vouchers to some 150 million Russians. Carrying a nominal value of $10,000 rubles each, the vouchers can be sold in a voucher market, used to bid for corporate stock in enterprises offered at auctions, or be entrusted in more than 600 registered investment companies. Large blocs of corporate stock are owned by these companies. Unfortunately, legal ownership in Russia does not yet translate into economic control. The conglomerate management as well as legal owners themselves continue to look upon government for guidance and support.

The Russian economy is laboring under the dead weight of the basic elements of socialism: the political control over most means of production and over the people's money by a monopolistic government bank issuing legal-tender money at will. For the Russian people to endure the present is to suffer, yet the real crunch is still to come — when the conglomerates have consumed their remaining substance and the ruble has lost its last kopek of purchasing power. The Russian economy is likely to sink in the convulsion of one of the great hyperinflations in history. The social stability which has been quite admirable in the face of so many political and economic upheavals may give way to social instability and anarchy. Some parts of Russia and its former empire may disintegrate into bloody anarchy in which the reformers battle the stabilizers, the ethnic groups each other in a Yugoslav-style civil war, and the city dwellers the country folks in a desperate struggle for survival.

It will get worse before it gets better in Russia. The coming crisis is inevitable because the few steps taken in the early days of reform failed to achieve a viable market order. The failure once again will demonstrate that there is no durable middle-of-the-road between capitalism and socialism and that any attempt at building one invariably will lead to hyperinflation and chaos.



Hans F. Sennholz

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PRINCIPLES OF ECONOMICS

by Carl Menger
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government is entitled to all our income and that anything it lets us keep is a subsidy. That's an un-American idea to say the least.

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A middle-class family in the 28 percent bracket that spent $5,000 for private-school tuition would save $1,400 in federal taxes, plus perhaps $500 more in state and local income taxes. That is not as much as the $2,500 that Prop 174 would have provided, but for some families it could be the margin of affordability between public and private school. The tax relief would not be as great for families in a lower bracket, although it might be enough to stimulate the launching of low-cost neighborhood private schools. The deduction might also prompt some parents to consider homeschooling, which more and more families are finding to be the best alternative of all.

Finally, it may be asked, why shouldn't the tax laws favor the public schools? They should not, because in a free society and an uncertain world, people should not be unreasonably restricted in the trial-and-error process of raising their children and improving themselves to the best of their ability. Public school administrators do not have a monopoly on wisdom. Parents and alternative providers may have a better idea. Free individuals should be able to face life's challenges with the widest latitude—and without being penalized by the tax code for doing so. □

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THE FREEMAN
IDEAS ON LIBERTY

NOW FOR SOME SERIOUS EDUCATIONAL REFORM

by Tibor R. Machan

When the late Allan Bloom wrote his best-selling *The Closing of the American Mind* a few years ago, a debate ensued about just what might be wrong with American higher education. Bloom took what he considered to be a very serious approach to his subject matter and concluded, essentially, that American colleges and universities have become hotbeds of philosophical relativism, the position that in the end everything is equally important, there are no objective standards by which to judge educational performance or even what is important to learn and what may be less important. Bloom said, in effect, that we have a philosophical problem with our educational system, one that has serious harmful practical consequences by leaving us without a compass, by disorienting us about values.

Bloom's views were dismissed as elitist by many college administrators and professors. This means that Bloom didn't accept that everything is equal, that all views and ideas have equal merit. This elitism does, of course, fly in the face of a certain feature of American education, one that many associated with it fully embrace. This is the belief that everyone, regardless of interest, motivation, and aptitude ought to receive the benefits of education. Such an egalitarian doctrine, which is a supporting assumption of the welfare state, does indeed conflict with the view Bloom championed, namely, that education should aim to teach those who have a chance to make the most of it.

But even Bloom didn't realize the depth of the problem of American higher education. A recent report, "An American Imperative: Higher Expectations for Higher Education," paints a sorry picture of America's colleges and universities. This report emphasizes the lack of skills of students who emerge from American higher education. It points out that the majority of students graduate without any useful skills. The report also states that institutions of higher education "certify for graduation too many students who cannot read and write very well, too many whose intellectual depth and breadth are unimpressive, and too many whose skills are inadequate in the face of the demands of contemporary life."

Yet, the report's authors, 16 prominent educators, leaders of industry, heads of institutes and foundations, and others, do not make any valuable proposals other than to urge that higher education be subjected to "a self-assessment." Since the obvious seems to escape these experts, let me make some observations based on my teaching experience throughout the country's higher education system since 1967.

The most radical but also most elemen-

Tibor R. Machan teaches philosophy at Auburn University, Alabama. His latest book, The Virtue of Liberty, *has just been published by The Foundation for Economic Education.*

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tary remedy for our educational woes is the abolition of compulsory schooling. This is necessary because children are simply not suited to the sort of massive uniformity that elementary and high school education imposes upon them. Children, like adults, are individuals. Individuality means, among other things, that one should be treated as a unique human being, something that is possible only if one is offered diverse developmental opportunities in one's education. Young people are ready to learn at different speeds, different subjects, with different aptitudes, by different methods. The type of uniformity that is part and parcel of public education simply is not suited to them.

A system of higher education that follows in the steps of the schooling provided in public education is destined to serve most students very badly. While some percentage of those students will have received just the sort of education they need, most will have been miseducated. As a result, they arrive at universities and colleges without motivation, skill, interest, or even elementary curiosity.

Day after day, over nearly three decades, I have taught entering college and university students who show an attitude of disdain and a lack of interest. The main task before me has been to inspire them to learning (never mind what it is they might come to learn). Having been coerced to attend school for 12 years, most of these students treat college as prisoners treat the outside world—indulging their desires, satisfying their pleasures, resenting anyone who reminds them of what they had to do in the elementary and high schools they were forced to attend.

Many professors lack the will to apply the strict standards that preparation for the adult world would actually require. Only a few students have the discipline to apply themselves after years of having their own needs and aspirations totally ignored. That for the first couple of years of their higher education they choose not to apply but to enjoy themselves is no wonder—they have, after all, been in confinement. During these first few years all one hears from them is complaints about having to do anything at all. Tests, papers, quizzes, and the like are resented. Day after day students ask whether class might be canceled—just for the fun of it. Indeed, fun is their primary objective, having been robbed of many of their childhood pleasures by a system of imprisonment, of involuntary servitude.

There may have been a time in the past when societies required the forcible training of their young to carry out the drudgery that amounted to surviving, but we no longer live like that. We ought to realize that our society is supposed to bring up sovereign citizens, not serfs or slaves. And such sovereign citizens are not going to be educated by means that fail to take into account the budding sovereignty of children.

Yet, that is perhaps the one lesson nearly all the watchdogs of American education deny. The nearly total opposition of the educational establishment to the very idea of educational choice, never mind that it wasn't nearly the sort of choice that is actually needed, testifies to this. Educators seem to be far more attached to the orthodoxy of public school than to the actual education of our children.

Not until we realize that a free citizenry is going to be left uneducated or at least undereducated without strict attention to the need for adjustment to individual differences, to the freedom to choose from different approaches to education, will we manage to reform education for the benefit of those whose education is supposedly our concern. And higher educational institutions will continue to miseducate those who get such a very awful start in their human development. □

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THE FREEMAN
IDEAS ON LIBERTY

BY ANY MEANS NECESSARY?

by Robert Zimmerman

Though most of my adult life has been spent in the competitive free-lance world of the film business, in recent years I have had the opportunity to observe first-hand the modern university culture, that seeming haven for Marxist extremists and the politically correct. Until I began teaching film at a large private university, the stories I heard about the lack of free thought on America's college campuses seemed ridiculously exaggerated and hard to believe.

The film course I teach requires my students to make a short film together, with each student performing the specific functions of a movie crew. In last year's spring semester, one of my students volunteered to do the production work, which included buying lunch for everyone else. To do this, Raquel passed around a sheet during one of the sessions so that her classmates could write down their sandwich orders.

Danny ordered a roast beef sandwich with a bottle of Snapple ice tea. When the class ended, Raquel immediately confronted Danny with information about a Snapple boycott. "Before you buy that Snapple drink, you should know about the boycott against them."

Danny was already looking at his lunch order to consider changing it. "What boycott, Raquel?" I asked. "I haven't heard of any boycott of Snapple."

"Well, I was at the ILGO (Irish Lesbian and Gay Organization) demonstration on St. Patrick's Day and was drinking a Snapple when someone came up to me and told me that I shouldn't be drinking Snapple because they support the Christian Fundamentalist Group from the Republican National Convention."

This sounded very interesting. "What Christian Fundamentalist Group?"

"The Christian Fundamentalist Group that was at the Republican National Convention."

"Could you be more specific?"

"That's all I know, and I thought Danny should know about the boycott before he bought a Snapple product."

It was at this moment that I began to wonder whether I had been transported back in time to medieval Europe, and was trying to stop the burning of a witch by a crowd of angry and ignorant villagers. "You can't advocate a boycott of a company on so little information. Religious fundamentalism could refer to the Moral Majority, the Evangelical movement, Presbyterians, the Branch Davidians, Orthodox Judaism, Shiite Muslims, and numerous other groups, believing many different things with many different goals. All are different, most are peaceful, and only a *very, very* few are

Mr. Zimmerman, a film producer and writer in New York City, is a frequent contributor to The Freeman.

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extremists or violent. Which one does Snapple support, and why should we be against them for doing so?"

"Well, all I know is this guy at the ILGO demonstration gave me a hard time for drinking Snapple because they support such a group, and I wanted to let Danny know this before he bought Snapple for lunch."

During this exchange, Danny had been sitting in his seat in uncomfortable silence, watching us like someone at a tennis match, his head going back and forth.

To me, Raquel's answer was wholly unsatisfactory. "I cannot let such a position go by without protest. Boycotts hurt people. You are threatening the livelihood of thousands of men, women, and children who depend on the sale of this product. Before you can stand there and tell us not to buy it, you owe the people who work for Snapple a better explanation of why you want to deny them a way to make a living."

To this Raquel could say nothing. "I don't really know more than this."

I looked at Danny. He shrugged. "Well, I have to agree with Mr. Zimmerman. You've got to tell me more before I can participate in this boycott."

Despite Raquel's willingness to admit that her knowledge of the boycott was limited if not non-existent, I still suspect that she continued to advocate the boycott, albeit out of my presence. And despite Danny's public willingness to refuse to join the boycott when he saw how little she knew, I am also doubtful that others will either question her as I did, or resist as Danny eventually did.

In fact, I felt a very strong resentment from the several students present of my forthright questioning of Raquel. That I had exposed this so-called boycott as nothing more than a poisonous rumor did not seem to matter. Here was a cause, and I was interfering with the furtherance of this cause by my insistence on the truth.

It seems to me that we have too many boycotts today. You don't like the way the people in Colorado voted? Boycott them! Idaho's legislature did something you disagree with? Boycott them! Arizona won't celebrate the holidays you believe in? Boycott them! Pretty soon there won't be a habitable state in the Union.

Extortion

None of these boycotts actually has anything to do with the problems of our time, nor with promoting a reasoned social debate so that we can find out the truth and try to solve our problems. Whether or not one agrees or disagrees with someone's actions, this strident, incessant call for boycotts begins to look not like free speech and a form of advocacy but instead a form of extortion and the threat of persecution.

I have not found this to be an unusual occurrence on my college campus, or in the film and television business from which I make most of my living. Our cultural and intellectual community today is eager and willing to condemn and injure those that dare to disagree publicly with their orthodoxy. Without any information, Raquel had been willing to advocate the destructive use of a boycott, and no one but me seemed willing to question it.

What is even more appalling is how casually Raquel and her ILGO friend were willing to generalize the opinions, beliefs, and moral goals of the religious people within the Republican party into a single, hazy, and undefined entity called a "Christian Fundamentalist Group," and how casually my other students were willing to accept this generalization as truth.

It seems to me that the number of religious groups that attended the Republican National Convention were quite various in their beliefs, and the political positions they advocated were as complicated and various as their number.

Yet, to Raquel and her unnamed ILGO friend, these groups were all part of "the Christian Fundamentalist Group." And "Christian Fundamentalists" who attend the Republican National Convention are obviously the bad guys and must be stopped, by any means necessary.

The worst aspect of this little tale is that I know that I will be unable to convince my uninterested "liberal" friends and relatives

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that this kind of stereotypical and bigoted thinking is going on, and that within their own liberal community it is becoming acceptable to use force and coercion against those they disagree with. I myself had not believed the stories I had heard about political correctness and the growing intolerance on America's college campuses. Yet, it has become my experience that Raquel will find encouragement and support for her boycott of Snapple from almost all the teachers, students, and friends she will come into contact with on campus.

Ship of Fools

In 1961 Stanley Kramer made "A Ship of Fools," a film about a dozen or so people traveling by ship from South America to Germany in 1933. One of the characters is a good-natured Jewish salesman from Germany who never loses his temper, despite being ostracized during the voyage because of his religion. At one point someone asks the salesman why it doesn't worry him that the Nazis have just gained control of the German government. He smiles, and says, "There are a million Jews in Germany. What are they going to do, kill us all?"

When the Nazis advocated the boycott of Jewish businesses because they didn't like Jews, no one believed this could ever lead to wholesale genocide. Because the Nazis were crude, vicious, and didn't care much for reasoned debate in search of the truth, a country as civilized as Germany would never allow them to do everything they wanted to do.

Yet, they eventually murdered millions of Jews.

Today, I find the never-ending calls for boycotts from the left against businesses, states, and religious groups they disagree with, often based upon rumor and hearsay, frighteningly reminiscent of Germany in the twenties. Raquel didn't really care whether there was any reason or logic behind the Snapple boycott. Her friend at ILGO demanded she join it, and join it she did.

And once again, no one believes it possible that such thinking might lead to oppression. A country as civilized as America would never allow such a thing to happen.

The road to hell is paved with good intentions. I fear that we are on that road, and we travel down it at an ever-increasing speed because we refuse to read the road signs all around us. □

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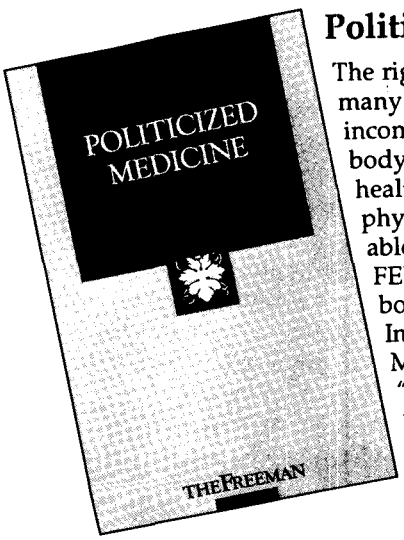

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THE FREEMAN
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THE MORAL HAZARD OF GOVERNMENT

by Michael R. Duff

One morning not long ago I developed a headache on my way to work. Before sitting at my desk, I took two ibuprofen tablets. An hour later, feeling no better, I took two more.

Within minutes, I began to feel even worse. Believing that I was getting progressively sicker and the medicine I was taking was too weak to alleviate the pain, I took two more tablets. Twenty minutes later, almost blind with pain, I took two more.

Less than two hours after arriving at work, I was completely incapacitated. A co-worker walked in to check on me and, after seeing me on the floor with a cold towel wrapped around my head, asked me how I was. I described the progression of this manifestly serious illness and the steps I had taken, without a hint of success, to combat it.

"You idiot!" she said, "You aren't sick, or at least you aren't as sick as you think you are. You've overdosed on ibuprofen! Eight of those pills in less than two hours would be enough to put an elephant on the floor!"

When I asked her what I should do next, she said, "STOP TAKING THE MEDICINE!" And she walked out.

Every bottle of over-the-counter pain reliever carries instructions about appropriate dosage levels and schedules printed in plain English on the label. Regrettably, some people just don't bother to read them.

Michael R. Duff resides in Bloomington, Indiana.

For Safe Use, Read the Instructions

Just as some people risk damaging their health by diagnosing and (mis)treating their own illnesses, many in America today self-prescribe more and more government as the answer to every social pain they feel and every competitive annoyance they are forced to endure. Like people who fail to read instructions on drug labels, they fail to read the instructions for their government: the Constitution of the United States.

Those who crafted our representative government were like the family practitioners of old. They outlined in writing what was necessary to live a healthy, productive life in a nation of free people. By the examples they set in their own lives, they placed the burden squarely on the citizen/patient to employ the self-discipline and self-restraint required to follow their advised regimen in order to fully enjoy the benefits of a hard-won freedom.

In this century, however, our federal government has evolved into a kind of medicine-show quack pandering to a nation of self-indulgent hypochondriacs through the prescription of a succession of phoney, expensive "cure-alls" that cure nothing, drain the lifeblood from the private econ-

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omy, and succeed only in making matters worse.

The official recognition of a problem—whether it be urban blight, drug abuse, or illiteracy—by a federal agency has historically served to institutionalize the problem itself. The moral hazard of government first comes to light as it rewards itself with additional funding in direct proportion to its failure to discharge any significant facet of its legal mandate.

Public officials charged with solving "crises" benefit directly from planning and executing programs that serve only to exacerbate them. They are rewarded with power, tenure, and an escalating share of the budget to the precise degree that the "crises" over which they preside become so intractable that they eventually become trademarks of our national life to the rest of the world.

Stop Taking the Medicine!

Programs designed to rebuild our inner cities and the family structures of those trapped there have, hundreds of billions of dollars later, managed to turn those areas into free-fire zones where tourists are hunted for sport and the only thing cheaper than life is the hollow ring of those who say the only answer is greater government involvement.

The moral hazard presented to poor people by federal assistance programs has been well-documented. Rather than helping people off the treadmill of poverty, it speeds up that treadmill, thus making it more hazardous to jump off than to stay on. The spinning wheel traps entire generations in a culture highlighted by federal dependency and violent crime. At some point, the admonition to just "STOP TAKING THE MEDICINE!" would seem to be appropriate.

But this isn't about those examples of the initial stages of the moral hazard of government that are easily recognizable. Most large organizations, even with the best of intentions, will eventually succumb to the pathology of bureaucracy. Once individuals within an organization can no longer perceive any direct evidence of their impact on the goal the organization is empowered to achieve, they will inevitably place their own advancement within the hierarchy ahead of the organization's own long-term best interests.

Soon, those who choose to make a career for themselves within the organization will tend to do so more and more as a means of gaining access to power while insulated from the vagaries of market forces, and less and less from an idealistic identification with the espoused common goal.

This bloated, less virulent strain of the moral hazard of government is susceptible to the cyclical attempts to "reinvent" government by attacking the waste endemic to its operation. These efforts have generated more rhetoric than they have cut fat. Encouraging politicians who embark on these routine exercises to attack the "how" of government without re-examining the "what" is like cheering an armed robber for trading in his old getaway car for one that gets better gas mileage.

Trading Freedom for Oppression

Throughout history—during the Civil War, westward expansion, the Great Depression, and World War II—Americans have been called upon to sacrifice part of their freedom for some national purpose. At such times the causes most often seemed just or, at least, historically fated. The issues were largely forced upon the American people, and the relatively small amounts of individual liberty that were sacrificed, while not always temporary, were judged by many to be worth the cost.

However, the real moral hazard of government begins when it no longer reluctantly asks for these oblations in return for mounting a concerted national effort to defeat a perceived common threat. It begins when the same process is used to justify limiting freedom to advance the interests of an emerging ruling class facing "issues" or "crises" for which no effective medicinal use of government can be documented or,

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worse yet, when the motivation is the clear expansion of government power for its own sake.

New departments and agencies are routinely added as successive administrations are elected based on campaign pledges to deal with the "crisis" of the hour, as defined largely by the content of the latest media firestorm. For example, the "War on Drugs" provides the backdrop for the existence of special police powers which enable authorities to detain American citizens in American airports if they happen to fit a DEA "profile." Detainees are presumed guilty until they prove themselves innocent to their captors' satisfaction.

A philosopher once said that all vulgarity is the inability to resist a stimulus. While coined to describe the habits of the coarse, the maxim also brings to mind late twentieth-century environmental policy in America. Anomalies are observed and reported, and before the dynamics of cause and effect can be clinically determined, blame is assigned and laws restricting the activities of those allegedly culpable are enacted and strictly enforced.

All of this occurs in an atmosphere of hysteria created by a media whose sense of responsibility can be described by paraphrasing the above maxim in this way: all debauchery is the inability to resist *seeking* a stimulus.

What is the current state of our freedom after thirty years of environmental delirium about "global warming," "acid rain," "radon gas," and that storied "hole in the ozone layer"? An American can be sent to jail for digging a ditch on his own property if an alert neighbor suspects that it might, at some time in the past, have been a "wetland." The EPA can also hold a person financially responsible for the environmental damage done to his land 75 years before, no matter how many people have held title to it in the interim.

The Tax Bite

As a mechanism for raising revenue, the federal tax code is a complete fraud. As a system of rewards and punishments designed to modify behavior in transparent annual exercises in social engineering by reallocating income between different economic classes, all in the interest of "fairness," it is a huge success.

Small businesses that flourished as a result of the relatively enlightened tax code adjustments of the eighties are today the prime targets for the "enhanced" revenues with which the federal government seeks to fund its new ventures under the guise of reducing its debt. The moral hazard inherent in the federal tax code has become ever more obvious in the current administration's efforts to raise funds by targeting for "fairness" purposes those who can be singled out for punishment for being rich.

But there are not enough truly rich to matter. Confiscating 100 percent of the income of those who make more than a million dollars a year would operate the federal establishment for a few hours. What is necessary is a creative redefinition of the term *rich*. The taxes that could be raised and the incomes of those from whom revenues would be taken are inversely proportional until one gets to the real source of most of the money in America, the middle class.

But taxing the middle class is no longer politically palatable, at least overtly. Something else is needed so that the federal government can tap into the vast pool of middle-class income while creating the illusion of asking the rich to contribute their fair share. What is required is yet another profile, one that successfully redefines the meaning and sources of income. So revenue enhancement experts now view income from a broader perspective. Hence they broaden the definition of income for the rich to include these considerations: (1) actual income: wages, salaries, tips, and cash bonuses; (2) non-liquid compensation: the monetary value of fringe benefits; (3) deferred income: capital gains not taken; (4) unrealized income: cash values in life insurance policies; (5) theoretical income: money a person could receive if the house he owns were rented out.

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One axiom concerning the moral hazard of government is that the hazard increases as the potential for satirizing it decreases. The rationale that drives a scheme to fabricate rich people out of the whole cloth of a visibly struggling middle class is self-parodying and would be humorous in and of itself if the consequences were not so severe.

The Twin Tracks of Moral Hazard

The moral hazard of government runs in two tracks. The first traces the pattern of crucial yet temporary sacrifices being asked in return for the resolution of truly national crises forming a pattern that has steadily degenerated into the habitual creation of federal departments to scratch the itch of the moment. By building constitutionally illicit public structures to resolve private issues, we commit ourselves to support gargantuan agencies with residual special powers each of which lingers long after the original "crisis," never adequately addressed, has faded from memory.

Fresh dirt has been dug in this track by current proposals to bring a full seventh of the nation's gross national product under federal management to deal with the "crisis" in health care. If the departments of agriculture and education could grow to their current sizes based on their initial limited goals, the future size of the federal Department of National Health, or whatever it will be called, simply cannot, at this time, be imagined. But this is of little consequence since, in our nation's capital, good intentions are not only presumed to be enough, but also assumed to be present in amounts equal to the task.

The second track by which we can identify the moral hazard of government is the sheer hubris with which it is operated. Two examples from the recent budget agreement will illustrate. First is the government's conceit that it will do more productive things with the new money raised through increased taxes than the people from whom it was confiscated. This new tax revenue will come directly from those most able and historically most willing to invest it in the private economy. This is the "trickle down" theory as applied to government "investment."

Second, there is the retroactivity of the tax increase itself. It is no longer enough that Americans are forced to conform their conduct to thousands of pages of tax codes and IRS regulations, strictures that are not only legendarily arcane but change almost every year. Now they must read their leaders' minds and adjust their daily activities in anticipation of future laws and regulations that will be retroactively applied.

This naked display of government power compels us to continually assess and reassess the character, motivations, backgrounds, and personality quirks of those with the power to make and enforce such laws. In having to judge the mood of those in power, the hidden agenda of spouses, the potent influence of friends, family members, associates, and former classmates, Americans are rapidly succumbing to a government that has mutated into an old-fashioned ruling class and, at the same time, shown itself to be in rapid decline.

It is decidedly NOT in the best interests of those now exercising nearly unrestrained power to be judged by the American people by the evidence of their personal qualities.

The Road to Feudalism

Retroactivity, if sanctioned by the courts, is a large step in restoring the rights of feudal tenure. Those now in power should take a few minutes from their frantic efforts to micro-manage every aspect of American life to read not only our own Constitution, but the Magna Carta as well.

The hubris that is the inevitable by-product of the moral hazard of government has intoxicated not only those at the top but also those charged with enforcing the law on a level much closer to our streets and our homes.

In September, 1993, *The Wall Street Journal* reported the story of a drug raid in Malibu, California, that went terribly

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wrong. A 61-year-old man was suspected of having planted and cultivated a plot of marijuana on his large ranch there. A sheriff's department swat-team conducted a predawn, paramilitary raid on the man's house, and when he stumbled out of his bedroom with a gun he was shot dead.

There was no marijuana. There was no evidence that an elderly man could somehow dispose of several acres of an illegal crop in the time it would have taken to serve a search warrant in the traditional manner. The man had no history of violent behavior. Was this simply the case of over-zealous police officials acting irresponsibly with unintended tragic consequences in doing their part in a nationwide effort to eradicate the menace of drug abuse?

Not when you read further that conversations took place among the officers prior to the planning of the raid that centered on the value of the man's ranch upon its seizure and eventual liquidation.

Does anything so illustrate the degree to which the moral hazard of government threatens us all as the fact that, prior to the decision to conduct the deadly raid against an unsuspecting 61-year-old American, the police had requested and paid for an appraisal of the man's property? □

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Professor Machan is Professor of Philosophy at Auburn University and a Contributing Editor of *The Freeman.* His other books include *Individuals and Their Rights* (Open Court, 1989), and *Capitalism and Individualism* (St. Martin's Press, 1990).

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THE FREEMAN
IDEAS ON LIBERTY

WHAT'S WRONG WITH DEMOCRACY?

by L. Hatzilambrou

In the twentieth century the United States has been transformed from a relatively low-tax, decentralized *laissez-faire* country into a high-tax, centralized welfare state with ever-increasing numbers of laws, rules, regulations, and taxes that harass, bewilder, and regiment its citizens. Although this trend has developed to some extent gradually since the beginning of the republic, the crisis atmosphere of two world wars and the Depression of the 1930s provided a welcome rationale for those who view government as the solution to most of society's problems.

But for every problem seemingly solved by government, many more rise up to confront us. Today's problems seem insoluble, and the average person feels helpless in the face of them.

We have a democratic system of government that is supposed to produce the good society but instead results in one in which many are concerned about their safety, health, and old age, the deteriorating conditions of the public sector, persisting poverty, homelessness, and other indications of decay, the corruption of elected officials, the decline of morality, and a host of other worries. This is obviously not what people want. Something is amiss. What's wrong with democracy? Why doesn't it seem to work reasonably close to the popular perception?

Mr. Hatzilambrou, a retired Navy Department weapons analyst, lives in Scottsdale, Arizona.

Democracy versus the Market

To find the answer we have to reconcile two competing systems. On the one hand, there is the satisfaction of preferences through democracy: people get what they want by voting for it. On the other hand, the free market is also supposed to ascertain preferences. How do these two systems work together, if they do, to harmonize society? We can explore this by observing the effects of one on the other. To do this let's begin at the most fundamental level, the minimal state, and observe the effects of democracy on it.

The only functions of the minimal state are to prevent physical harm or coercion of people by others, and to protect private property and contract rights. All other voluntary acts between and among individuals are not subject to any interference by the state, such as wage, price, and rent controls, subsidies, quotas, licensing, zoning, eminent domain, mandated benefits, antitrust, or any other direct or indirect regulations or restrictions not required to maintain the minimal state. In the minimal state only those taxes can be levied that provide for the necessary minimum tasks, and a limit is placed on the total amount of taxation and spending to perform such tasks. Only those functions are allowed that are necessary to support the minimal state.

In the minimal state a completely free market—within the restrictions against

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fraud, theft, and violence—exists for the exchange of goods, services, and ideas. Prices are determined by the laws of supply and demand. Each individual allocates his scarce resources (monetary income, nonmonetary goods, actions, and time) and makes choices that maximize his utility. An optimal society results when all individuals maximize their utilities. We call this free-market allocation of resources and satisfaction of wants *market preference*. Prices and other outcomes determined by market preference are "just right." People get exactly what they want by the most compelling criterion, viz., putting their money and other resources where their preferences are.

The optimal society resulting from market preference is not a utopia. In any society populated and governed by mortals there will always be the poor, the sick, criminals, vagrants, and others who are afflicted or discontent in various ways and for various reasons. But such a society is as good as it can be, given the real world. Any governmental interference in the minimal state will result in a net number of people worse off than before.

Logic and experience throughout history show that any movement toward the minimal state, by tax cuts, decreasing regulations, and the like, expands both the economy and personal liberties, and any movement away from it, through increased government control, does just the opposite.

The alternative to market preference is the allocation of resources by the state, which we call *political preference*. As the government responds to the desires of various individuals and groups for an allocation of resources that differs from that indicated by market preference, the result is a mixed economy such as prevails in varying degrees everywhere in the world, with some allocations determined by the market and others by politics.

In a democracy, political preference is exercised largely, but not entirely, by voting. To see what the effects are of political preference in a democracy, let's start with the minimal state and observe the effects that one measure of political preference has on it. We take as an example the allocation of resources for eleemosynary purposes, i.e., people deciding how to spend some of their income for charity. They can give money, goods, or services directly to those whom they consider deserving of their help, or through organizations, such as churches, hospitals, research centers, or other philanthropies. In either case these are voluntary contributions directly under their control, and they become a part of their total utility maximization.

Suppose, instead, that a vote is taken, and we assume here a referendum rather than a legislative vote, on giving money to a group, e.g., "the poor," however defined, with the majority deciding the outcome. We can even assume, to give the benefit of the doubt to this process, that most of the taxes for this purpose go to the designated recipients, with no graft or other waste by government officials, and only a minimum consumed by administrative costs. The minimal state has thus been modified to include a charity tax.

This charity tax differs from the individual voluntary contributions in several respects. Those who vote against the measure will be forced to support the charity tax, as well as those who vote for it. Not even all of those who vote yes are completely satisfied. Some of them may not agree with the exact amount of the tax, favoring either a lesser or greater amount. It would be surprising, indeed, if a large number of the majority supporters thought that the tax was exactly right and precisely corresponded to what they would have voluntarily contributed. Nor do all of the majority agree on who the designees of the charity tax should be.

The "no" voters range from those who are mildly against it to those who are adamantly opposed. Regardless of the degree, all of the opponents would not, with few exceptions, have given money to charity exactly in that amount and to exactly the designated group, in the absence of compulsion. Even some of those who would have done so nevertheless object to the coercive aspect. Thus there exists a sizeable group, probably a large majority, who would not have thus allocated their income through market preference.

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People in this latter category must then adjust their preferences to accommodate the new tax. Prices and other market relationships and individual actions therefore change from what they were before the tax, and these distortions thereby produce a suboptimal societal outcome. The more there are who would not have voluntarily spent their money in the exact amount of the tax, or who would have taken other nonmonetary actions, the greater are the distortions and the lower the suboptimal results in society.

Expansive Government versus the Optimal Society

Any direct tax for a purpose other than to support the minimal state will have an effect similar to the above example. Any other governmental action, even if not a direct tax, also has the effect of distorting preferences, prices, and actions, and thus also produces suboptimality. Every form of action by government that tends away from the minimal state is in effect, directly or indirectly, a redistribution of income away from the optimal, and thus another step in the progress of the welfare state towards full socialism.

Although some issues are decided by referenda (in some states, but not at the federal level), most are not. A representative form of government prevails in which legislators represent voters who have little control over their representatives, except to vote for the total package that each one initially offers but who can also change some contents of that package after being elected. These legislators over the years have passed multitudes of laws at all levels of government. Rather than the handful of laws that would suffice for the minimal state, the average citizen is confronted with a bewildering array of laws. How many laws are there? Nobody knows, but the U.S. Code, which contains the federal laws in several volumes, has about 250,000 pages. The laws of each state and its subordinate governmental units are probably as numerous. Since these laws cover virtually every facet of life, peoples' abilities to control most aspects of their lives are severely circumscribed.

The more laws there are, the less people will be able to determine their own preferences and the less control they will have over their own lives. By contrast, in a free society everyone can allocate his resources exactly as he chooses. Except for obeying the few strictures of the minimal state, he has unlimited choices in the marketplace and in his personal life. The total output of the economy in the minimal state is just right, and the economy grows at the optimal rate. In a mixed economy the total output is not the right amount, and the economy grows at a less than optimal rate. The income redistribution resulting from political preference has the effect of decreasing savings and investment, thereby slowing the growth of the economy. The greater the degree of political intervention, the slower the growth. At the limit, in a pure socialist state, the economy stagnates.

This reveals the basic paradox of democracy in the welfare state, which is the attempt to discover a broad range of preferences through the political process. Real preferences can be revealed only through the free market. The delusion that the equivalent can be discerned through political preference is an attempt to square the circle, and as useless. It is asking far more of democracy than it can possibly deliver. People don't reveal their actual wants by voting, but only by matching their finite resources with their wants through the free market. There is no other way that doesn't amount to a form of wishing. Solutions that do not recognize this paradox can only be counterproductive, as people will spend ever-increasing amounts of their time in futile attempts to get what they want through the political process.

The Limits of Democracy

We can now answer the question—what's wrong with democracy?—by looking at it in terms of sovereignty. With a dictator, emperor, or oligarchy, the sovereign is either a single person or a small group

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of people. But in a democracy "the people" are the sovereign. The political ideas that founded and sustained this nation through its early history had their origins in Western Europe, and particularly England, where a struggle took place over centuries to limit the power of the sovereign. The American Revolution and Constitution were attempts to affirm and perpetuate that limitation. A system of checks and balances was instituted to prevent the domination of the government by any one person or group.

But this original attempt to limit power has been gradually eroded, as the Constitution has been virtually abandoned over the years, until today the sovereign people have, directly and indirectly, acquired enormous power. We are approaching the vulgar unconstrained democracies of ancient Greece, in which the people had arbitrary power, including that of life and death over any individual, e.g., Socrates. Unless the power of the present sovereign, the people, is limited by some means, the consequence may soon enough be as great a tyranny as that of any emperor, dictator, or oligarchy. That we did it to ourselves may add a bitter note of irony, but it will make it no less tyrannical.

What then is wrong with democracy? The conclusion is that democracy only works well when the issues do not violate market preference. The only issues that should be decided in a democracy are the choice of temporary leaders to govern and maintain the minimal state, and the fidelity of those leaders in executing those tasks. But when the issues involve political preference, however slight, and no matter in what form, democracy does not work.

Does this imply that, in the minimal state, government will entail only such simple acts of administration that eventually the state will wither away? Is this just a corollary of the Marxist vision? By no means. Neither the free market nor the minimal state is a utopian ideology. There is, and always will be, a great deal of work to be done in the minimal state, and by concentrating on the proper roles of government, perhaps these can be accomplished with some degree of competence. By contrast, the welfare state attempts through political preference to do everything for everyone, and thereby neglects its primary tasks while inadvertently creating a society whose actual welfare is inversely related to its efforts. The rulers of the minimal state will have their hands full to preserve domestic peace, repel foreign invasions, and protect property and contract rights.

When the strictures of the minimal state have been breached in a democracy, then for those measures enacted to further political preference, taxation with representation is no better than taxation without representation. Thus, in a democracy in which political preference predominates, questions can be raised concerning the obligation of the citizen to vote and the effectiveness of that vote. There are very few times when one vote makes any difference to the outcome of an election. And even when it does, in a society dominated by political preference, the choice is largely irrelevant, since any of the candidates would likely continue to support the system most of whose measures the citizen consciously or otherwise opposes. The welfare state thus breeds voter cynicism, apathy, and despair.

The answer is not to abandon democracy, but to strengthen it by negating its vulgar aspects. That can be done by constitutionally restricting democracy only to electing rulers whose functions are limited to those of the minimal state. In this way the people act in the manner of Odysseus, by restraining themselves so that they cannot react to the siren song of political preference. Recognition of the addiction to political preference is the first step in instilling self-discipline and vigilance in a citizenry—traits that are required to achieve and maintain anything close to the minimal state.

The people must recognize that democracy is not a remedy for all ills. It is indeed a powerful medicine. But this medical analogy suggests the fundamental axiom of toxicology, which states that it's the dose that makes the poison. A small dose of democracy can preserve the health of society, but in larger quantities it can be fatal. □

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THE FREEMAN
IDEAS ON LIBERTY

Is Individualism Dead?

by Nelson Hultberg

Whatever you can do or dream you can, begin it.
For boldness has genius, power and magic in it.

—Goethe

Study any account of the growth of America and one fact always jumps out at you—the heroic self-determination of the men and women who shaped the events of our history. Throughout those sprawling colonial years, to the trying times of the Revolution, and beyond to the boom towns of the West, the railroad age, Edison, Henry Ford, and the roaring twenties, there is observable in the people of these eras an unrelenting sense of self-reliance and willingness to take risks.

It is not a history of government social agendas, with their inevitable concomitants of futility and despair. It is a history of adventurous, self-assured individuals in pursuit of great accomplishments, of personal daring and discovery. The dominant figures that built this country were not leveling bureaucrats, but dynamic entrepreneurs, pioneers, scientists, inventors, immigrants—bold individuals with "genius, power, and magic" in them, willing to rise or fall on their own merits and the strength of their faith in a just Providence.

They fought a war with a ragged little army against a mighty empire, and won. They wrote a Constitution for all the ages, and crossed a vast and death-dealing frontier with nothing but covered wagons and their own personal stamina. New inventions, miracles of production, and an astonishing wealth sprang from their unbounded ambition. They turned useless prairies into golden wheatfields, wagons into powerful locomotives, and a savage wilderness into a network of commerce and trade.

To such restless enterprising people, there was little on earth that was impossible. All they wanted was to be free, to keep what they produced, and to seek their destiny beyond the next horizon. They would work out their own security. "Just let us be free," they insisted.

It was thus that a whole new philosophy came to be, through the first stirrings of these brave men and women. It was the philosophy of *individualism*, and it stood in direct contrast to the accepted beliefs of Europe, which taught men to seek security and subordinate themselves to the dictates of the monarch, or the feudal lords, or whoever had the power of the state and church behind them. This new American philosophy declared that men were their own rulers, that they were responsible for their own lives and possessed the power within them to overcome any obstacle. It was a philosophy that exploded across a whole continent. It transformed the world and turned life into an active force for good.

For a century and a quarter, Americans adhered to individualism, and as a result, their prosperity grew to unparalleled heights.

Mr. Hultberg is a free-lance writer in San Antonio, Texas.

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Abandoning Principles

Beginning around the turn of the century, though, a great many Americans began to abandon the individualistic principles that had served them so well. By the start of the 1930s, the primitive concept of *statism*, dominant throughout the monarchist age in Europe, began to re-emerge under the guise of "social progressivism." As a result, bureaucracy grew, life became less meaningful, peace became the exception, and that vital spirit of individualism faded in face of the burgeoning welfare state.

"The individual means less and less, mass and collectivity more and more—and so the net of servitude which hems in personal development becomes ever denser, more closely meshed, and inescapable," wrote Wilhelm Röpke, some 40 years ago in his great classic, *A Humane Economy*.[1] He saw all too clearly the horrible changes that were sweeping over the Western world as a result of collectivism and bureaucratism.

The fundamental question we face now is: Can the philosophy of individualism survive, or is it to wither away under the ever swelling shadow of a monster government and the womb-to-tomb security its social engineers are forcing upon us? Must we passively accept being wards of the state, or do we still possess enough of the spirit that founded America to recapture our basic rights? Do we still value freedom, or is it really state regimentation that we seek down deep in some craven corner of our souls?

If a free America is to be preserved then the first and greatest enemy of freedom must be contested. And that is the notion that freedom is no longer possible in a modern world, that individualism as a philosophy of life is a relic of the past. We hear it everywhere. In fact, we're bombarded by such pronouncements from the time we first go to school. "Individualism was a good thing in its day," we're told, "but it's no longer workable." A growing flood of socio-economic studies pours forth from the nation's universities proclaiming to Americans that, while a free market is certainly productive, the underlying fundamentals of laissez-faire capitalism were nefariously unsound. Thus we must move toward a more "public spirited," a more "nationally planned" social structure.

Such appeals speak soothingly to us, with benign and futuristic phrases: "new social vistas," "the upcoming challenges of America's third century," "the necessity to build a modern era of co-operation between the greatness of government and the productivity of the business world." It all sounds very progressive, very necessary. The world is changing, and therefore America must change also. A laissez-faire economy is just not applicable to modern times. "We cannot afford the anarchy of the capitalist system," explain the experts. "Individualism may have worked fine in a frontier society, but not in a modern technological society." And we obediently clasp such fateful declarations to our bosom without so much as an afterthought.

Should it not be obvious by now, though, in light of the world's present catastrophic economic convulsions, that it is actually the other way around—that it is actually *socialism* and *welfarism* that cannot work in a modern technological society? Witness the all-encompassing collapse of socialist principles in the USSR and Eastern Europe as viable means of societal organization. Witness the "democratic socialism" that has kept India starving for decades, with its people subjected to endless turmoil, demoralizing uncertainty and ruthless power grabs. Witness the pathetic stagnancy of Sweden this past century, into a somnolent nation of collectivist poltroons, now staggering under the debilitating taxation and bureaucratic servitude that their "state welfarism" has generated.

During the past 80 years, every nation in the civilized world, that has adopted either socialism or welfarism as its form of political-economic organization, has incurred deterioration and chaos in every conceivable area of life. Inflation has plagued their economies, distorting their marketplaces and eroding the value of their currencies. A silent and sickly moroseness has settled over the lives of their young (for who can

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find pleasure in living when the state determines the limits of one's dreams?) Real prosperity has diminished. True freedom is gone. Joy and exuberance and the zest that life should hold for all is non-existent.

In the more primitive parts of the Third World, the record is even worse. Barbarism and tyranny, of a sort that Americans can scarcely fathom, are commonplace. Poverty lingers. Illiteracy, disease, inhumanity, and regimentation overwhelm everyone visiting such "collectivist paradises."

Why has this happened? As predicted long ago by Ludwig von Mises, socialist systems cannot calculate prices because they obliterate the entrepreneur, and thus they have no means to *rationally* determine supply and demand. Thus they have no power to produce either a quantity or quality of productive goods. Because they are devoid of the incentives that result from private property, socialist countries can bring forth only shabbiness and squalor—for their subjects will produce only enough to keep themselves out of trouble. So the great collectivist "ideal" of the political left, that was to transform the world into a technological Eden where all men can live in harmony without worrying about such grubby pursuits as earning a living, has not materialized. In fact precisely the opposite has come about.

With the dramatic collapse of the Soviet Union in 1991 and the fading of Communist Party control over Eastern Europe, the ideology of *socialism* was dealt, in many Western eyes, a devastating death blow. But a closer look reveals that socialism is merely reforming its basic goals into a more salable ideological framework.

Incredibly the purveyors of forced collectivity in Europe and America still cling to their dream of merging Eastern socialism and Western capitalism into an authoritarian World Welfare State, where *equality of conditions* for everyone is implemented. Still they proclaim that mankind must continue on to build the collectivist ideal; it just has to be along more "democratic lines." Still they proclaim that free markets and coercive bureaucracies must merge, that with just a little more *time*, a little more *taxation*, a little more *regulation*, humanity will one day realize the collectivist paradise. What is needed is not the extreme version of Marxism, but a more moderate "middle way" in the manner of Sweden. But to consider individualist capitalism is impossible. People must relinquish the direction of their lives to oligarchic bureaucrats and professorial elites, who are so much more "qualified" to determine how we are to live. When all this has come to pass, mankind will surely have found the egalitarian kingdom.

Even in face of collectivism's squalor and despair, most pundits of the West still believe this failed ideology retains some semblance of idealism, needing only a few "theoretical adjustments."

But collectivism's ineptitude does not lie in the depravity of its rulers, or the absence of purchasing power, or lack of time to prove itself. It lies in the overwhelming irrationality of its basic conception of life. Men are not meant to live in subservience to the commands of the state. They are meant to live as the Founding Fathers of America decreed: as free and responsible beings, with obedience to neither King nor mass opinion, but to "the laws of Nature and of Nature's God."

For those who wish to prosper and find their way toward a meaningful existence, that gives back a richness of reward for one's efforts, there is only one vehicle with which to bring about such values: *the philosophy of individualism and its marketplace of liberty*. The whole history of the past 800 years in the West stands as testament to such a truth.

The Birth of Liberty

The idea of individual liberty was philosophically born with the signing of the Magna Charta in 1215, and then painstakingly built upon and honed and strengthened over the centuries by such great men as Erasmus, John Locke, Edmund Burke, Adam Smith, Alexis de Tocqueville, and Frederic Bastiat. It was never thoroughly grasped, and never perfectly practiced, and

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many times lost altogether, but it lifted men from the Dark Ages to medieval commerce, and out of the era of monarchies to the New World. There it brought into being a radical new social structure of *personal independence* for all people, forming in 1776 the foundation for a system of living that was to become the envy of the entire globe, luring wave after wave of immigrants to our shores.

Such a system produced unprecedented freedom and human dignity. But intimidated by the false theories of Karl Marx and his intellectual progeny, such a system has been for many decades now under severe attack in our colleges and our legislatures.

What has been taking place in America throughout the past eighty years—the bureaucratization of the marketplace and the centralization of power in Washington—is not at all the glorious march toward "justice and equality" that has been portrayed. It's a virulent and purposeful assault upon the most cherished philosophical premises of our lives. Every value, so dear to the preservation of our freedom, is being steadily eroded by the technocratic sweep of twentieth-century statism and its ideological frenzies of regimenting all men into a massive welfare-state utopia.

"In all fields," writes Wilhelm Röpke, "mass and concentration are the mark of modern society; they smother the area of individual responsibility, life, and thought. . . . The small circles—from the family on up—with their human warmth and natural solidarity, are giving way before . . . the amorphous conglomeration of people in huge cities and industrial centers, before rootlessness and mass organizations, before the anonymous bureaucracy of giant concerns and eventually, of government itself, which holds this crumbling society together through the coercive machinery of the welfare state, the police, and the tax screw. This is what was ailing modern society even before the Second World War, and since then the illness has become more acute and quite unmistakable. It is a desperate disease calling for the desperate cure of *decentralization*. . . . People need to be taken out of the mass and given roots again."[2]

If such compulsive centralization of our society is to be checked and America's unique brand of freedom to be saved, then it will take a genuine restoration of the philosophy that our forefathers so boldly forged with blood and sinew throughout the early years of this nation. If the political brilliance that the Founding Fathers gave to us is not truly revived in America, then freedom as we know it will not remain; and in its place will come the New Orwellians of Technocracy, brandishing convoluted laws and regulations.

The educationists and editorialists who dominate today's university and media scene, and so glibly report in their manifold outpourings that we must "re-evaluate and modify the antiquated principles of individualism," that we must strive to make our government "more creative in the solving of modern-day problems," are so consumed with myopic scientism and programmatic avidity, that they can no longer grasp the principles necessary for the living of life in heroic form.

To "re-evaluate individualism" is to question the moral legitimacy of freedom itself, and the natural right of all men to personally direct the furtherance of their own lives. To say we must "legislatively modify individualism," is to say we must "forcefully modify humans," which is to make men into mechanized cogs.

What must be done in America today is to *restore* individualism, not re-evaluate it or modify it. Individualism cannot be "modernized." It cannot be made "relative to our time." It transcends time. It is a set of principles that are unalterable. It is the core, the genesis, the foundation of all freedom, all prosperity, all dignity, all life. Without it as our guide, our future will be bleak and despotic for sure. □

1. Wilhelm Röpke, *A Humane Economy* (Chicago: Henry Regnery Co., 1960), p. 17.
2. *Ibid.*, p. 7. Emphasis added.

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Is This the Age of Ignorance—Or Enlightenment?

"I am more and more impressed by my ignorance."

—Herbert Stein, "The Age of Ignorance," *The Wall Street Journal* (June 11, 1993)

Herbert Stein ought to know better. He was the chairman of President Nixon's Council of Economic Advisers and an economics professor at the University of Virginia. Today he's a member of *The Wall Street Journal*'s board of contributors and an American Enterprise Institute fellow.

Yet here he is filling up a valuable page in *The Wall Street Journal* proclaiming to the entire world that he knows very little, if anything. After reading three daily newspapers and numerous magazines, watching all the talk shows, and talking to dozens of "well-informed" people, he confesses complete ignorance about the budget deficit, taxes, the money supply, the stock market, and the war in Bosnia.

"I don't know whether increasing the budget deficit stimulates or depresses the national income. I don't know whether it is M2 or M1 that controls the level of spending. I don't know how much a 10 percent increase in the top rate of individual income tax will raise the revenue. . . . I do not know how to pick winning stocks."

The New Nihilism: The Bankruptcy of the Economics Profession

It wouldn't bother me if one lonely Ph.D. economist claimed ignorance of basic economics, but the amazing thing is that Herbert Stein is not alone. He reflects a strange new malaise in the economics profession, an eerie complacency about the burning economic issues of the day. Economists all along the political spectrum are eschewing responsibility for policy decisions or forecasting the future. Will interest rates rise or fall? Are we headed for another recession, more inflation, or both? Will the stock market go up or down? The answer is always the same: Who knows?

Robert J. Barro, Harvard economist and exponent of the New Classical School, seemed to take pride in his laid-back attitude about the economy during the 1991-1992 recession: "The questions I am asked most often these days are: Why is the economic recovery weaker than expected? How will the economy do over the next year? What should the government do to help? As a first approximation, the right answers to questions like these are: 'I don't know,' 'I don't know,' and 'nothing.'" (*The Wall Street Journal*, November 21, 1991)

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Not to be outdone is Paul Krugman, self-proclaimed Keynesian professor at MIT. He asserts that economists, including himself, don't understand why there are business cycles. Furthermore, economists "don't know how to make a poor country rich, or bring back the magic of economic growth when it seems to have gone away. . . . Nobody really knows why the U.S. economy could generate 3 percent annual productivity growth before 1973 and only 1 percent afterward; nobody really knows why Japan surged from defeat to global economic power after World War II, while Britain slid slowly into third-rate status."[1] Really? Mind you, this is the professor who won the John Bates Clark Medal, a prize given every two years to the most promising American economist under the age of forty. According to the dust jacket of Krugman's latest book, *The Economist* called him "the most celebrated economist of his generation." Hmm. . . .

Daniel Hausman, economics professor at the University of Wisconsin at Madison, wrote a massive volume on capital and interest and concluded with a straight face: "Economists do not understand the phenomena of capital and interest. They do not understand why the rate of interest is positive (and thus how it is that capitalism can work). They do not know how large-scale changes in the rate of profit will affect innovation."[2] And he's a specialist!

Economists as ignoramuses can best be summed up by John Maynard Keynes, the economist-king of the twentieth century, who declared in 1937, "The fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of classical economic theory. . . . There is no scientific basis on which to form any calculable probability whatsoever. We simply do not know."[3]

An Admission of Failure

In some ways, the New Ignorance school of economics is a welcome sign. In the 1960s, it was the New Arrogance school of economics. Forgetting Keynes' admission of 1937, the Keynesian technocrats claimed they had the tools to fine tune the economy, control inflation and ban the business cycle forever. Now, thirty years later, the establishment economists are finally admitting that their theories and policies have failed miserably. The profession has had a terrible record in predicting recessions, inflation, and stock prices, and their policy recommendations have made things worse, not better. As Hayek stated when he received his Nobel Prize in 1974: "We have indeed at the moment little cause for pride: as a profession we have made a mess of things."[5] By the 1990s, all the major schools of economics had failed, one way or another—Keynesian, monetarist, and Marxist. Alfred Malabre, Jr., former economics editor of *The Wall Street Journal*, appropriately calls today's economists "Lost Prophets," the title of his new book.

So it is fashionable today to plead naivete. But is ignorance a virtue? St. Paul didn't think so when he warned Timothy about intellectuals who are "ever learning, and never able to come to the knowledge of the truth." (2 Timothy 3:7)

The Standardbearers of Sound Economics

Among the many schools of economics, who carries the banner of truth? I believe that the best and the brightest thinking today is coming from the Austrians, the supply-siders, and other free-market scholars. Although some have fallen into the trap of "radical subjectivism," where everything is uncertain and unpredictable, most free-market economists have established objective principles of economic behavior, and can predict with considerable certainty the benefits of economic liberty and the ill-effects of government intervention, and how certain economic policies will affect output, prices, and stock markets.

Armed with these principles, let us see how well we do with the issues raised by the new nihilists. Herbert Stein says: "I don't know whether increasing the deficit stimu-

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lates or depresses the national income." Response: Transfers from the *productive* private sector to the *unproductive* public sector inevitably depress the national income.

Stein admits, "I don't know whether it is M2 or M1 that controls the level of total spending." Hasn't he read Adam Smith or Ludwig von Mises? Purchasing power is not determined by the money supply, but by productivity and output.

Stein declares, "I don't know how much a 10 percent increase in the top rate of individual income tax will raise the revenue." Hasn't Stein read the numerous studies demonstrating that the rich pay fewer taxes when marginal tax rates go up?

Finally, Stein confesses, "I do not know how to pick winning stocks." Instead of watching all those talk shows, why doesn't Stein follow the work of Peter Lynch, Warren Buffett, John Templeton, Value Line, and other analysts who know how to pick winning stocks?

Now onto Professor Barro, who didn't know why the recession hit in the early 1990s and where the economy was headed. The answers are pretty clear: The economic recovery was weaker than expected in 1991 because of a massive tax increase passed in 1990, on top of a tight money policy. The economy began recovering in 1992 due to the Fed's easy money supply. What should the government do to create a permanent recovery? Cut taxes and business regulations immediately, across the board.

Professor Krugman doesn't understand the business cycle? The Mises-Hayek theory is a good starting place, but unfortunately MIT has had a long tradition of ignoring the Austrian school. Daniel Hausman could get some answers there too. Why are interest rates positive? Time preference, declared Menger, Böhm-Bawerk, and Mises many decades ago. These Austrians specialized in the theory of capital and interest, and the role of the entrepreneur. Technological breakthroughs increase productivity and wages, and higher profits stimulate innovation by providing more capital for research and development.

Paul Krugman doesn't know how poor nations become rich? He should investigate the economic miracles of southeast Asia. The common denominators for Singapore and Hong Kong are a strong, stable, and lean government, low taxation, high levels of saving and investment, open markets, and minimal concern with income distribution. (*Forbes*, April 11, 1994) Could these reasons also help explain Japan's post-war success story? Pro-growth government, high saving rates, low taxes on investment, emphasis on training, and quality improvements. Or why Britain stagnated? High taxes, price and exchange controls, excessively powerful labor unions, bureaucracy, and welfarism.

In short, this isn't the Age of Ignorance. It's the Age of Enlightenment, for those who are willing to open their eyes and see. Unfortunately, too many of today's economists are blind guides. "For this people's heart is waxed gross, and their ears are dull of hearing, and their eyes they have closed; lest at any time they should see with their eyes, and hear with their ears, and should understand with their heart, and should be converted, and I should heal them." (Matthew 13:15) □

1. Paul Krugman, *Peddling Prosperity* (New York: W. W. Norton, 1994), pp. 9, 24. His previous book, *The Age of Diminishing Expectations*, came out in the early 1990s, just when Third World nations began throwing off socialism and Marxism, and sensed rising expectations for the first time.

2. Daniel M. Hausman, *Capital, Profits, and Prices* (New York: Columbia University Press, 1981), p. 190.

3. John Maynard Keynes, "The General Theory of Employment," *Collected Writings of John Maynard Keynes* (London: Macmillan, 1973), p. 114. This essay originally appeared in *The Quarterly Journal of Economics* in 1937.

4. Friedrich A. Hayek, "The Pretence of Knowledge," Nobel Prize Lecture, reprinted in *The Essence of Hayek*, ed. by Chiaki Nishiyama and Kurt R. Leube (Stanford: Hoover Institution Press, 1984), p. 266.

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A REVIEWER'S
NOTEBOOK

RECLAIMING THE AMERICAN DREAM

by John Chamberlain

Richard Cornuelle, author of *Reclaiming The American Dream*, subtitled, *The Role of Private Individuals and Voluntary Associations* (Transaction Publishers, New Brunswick, N.J., 1993, 258 pages, $19.95 paperback), is the man who restored Alexis de Tocqueville to his rightful place in American history.

Cornuelle had worked as a young man for Garet Garrett. A good observer, he had noticed that it had become fashionable to speak of American life in terms of only two sectors: the public, a euphemism for government; and the private, or commercial sector. The division seemed somehow wrong. Cornuelle discovered the inadequacy of the two-part division by reading Tocqueville's *Democracy in America*, in which the Frenchman marveled about our tendency to handle public business through associations that had no connections with the state. Americans founded associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the Antipodes, and to establish hospitals and schools.

The omission of the independent sector had resulted in a tendency to shuffle off work onto government. It ignored the Kiwanis, Rotary, Civitan, and Lions clubs, as well as the Chambers of Commerce, and some 3,500 independent private hospitals. "There were," so Cornuelle observed, "1,357 private colleges and universities, and enrollments in them went up faster than in the public schools."

There is something of a contradiction in Cornuelle's lament that conservatives failed to have programs or that liberals had some of the programs that they did sponsor. Cornuelle should be happy that the American dream worked for a hundred years. Our founders had taken pains to design a government with limited powers. Sometimes, this power resulted in a crazy intensity decorating the walls of Alcatraz Prison or in the frivolity of groups organized for treks in classic cars, or even in learning to be clowns. But the independent sector, as Cornuelle put it, is a kaleidoscope of human action, which takes a thousand forms. Sometimes the driving power of the independent sector may seem weak, but the demand to serve is none the less a compelling drive. "We see the services and their many alloys," says Cornuelle, who is satisfied to observe that "145,000,000 Americans have some form of health insurance."

Cornuelle sends me a copy of his revised book with the remark that, "Here it comes again." (*Reclaiming The American Dream* was originally published in 1965.) He says in his afterword that the Reagan mission was not to repeal the welfare state but to preserve it and to accept debt or inflation for taxation.

This was all true enough for the moment,

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but movements have been created by Cornuelle and others that must lead eventually to less dependence on welfare. "There is," says Cornuelle, "a sprawling politically invincible middle class, the members of which believe they could be satisfied by the free market." That is an optimistic note. It doesn't entirely satisfy Cornuelle. And I can see his point. We have a long way to go before reaching a totally free market. The difficulty we face is dealing with the ruined condition left us by the government process. □

Commager on Tocqueville

by Henry Steele Commager

University of Missouri Press • 1993 • 130 pages • $24.95

Reviewed by David M. Brown

In the 1830s, a young French aristocrat named Alexis de Tocqueville came to the United States to research its penal system, took some notes, and returned home a few months later to write the classic *Democracy in America*.

Tocqueville was interested in the effect of democracy on equality and liberty. He wanted to apply the lessons of the democratic experiment in the United States to that Old World in which democratic impulses would, he felt, inevitably gain sway. He issued warnings and he expressed hopes.

Much of what he predicted for America was not borne out in the short run, but in the present century at least one central dynamic he described seems to be playing out. So now we may ask: to what extent was Tocqueville right for the right reasons? Are the trends we are witnessing reversible? *Should* they be reversed, in whole or part? Where do we go from here?

The title of Henry Steele Commager's new book suggests a primary focus on Tocqueville, but though *Democracy in America* is indeed the starting point, what Commager really wants to do is explore "five questions that Tocqueville raised but did not—could not—answer. The questions examined are democracy and the tyranny of the majority, the price of the just society, centralization and democracy, the military in a democracy, and the contradictions between political equality and economic equality." Commager is a distinguished historian who brings a welcome historical sensibility to his task. He covers a wide range of material within a brief compass. On some issues he is careless or wrongheaded, and hesitant about hinting why others might disagree; but he can also be incisive.

As usual, key questions hinge on definitions and values. Commager liberally embraces quite opposing brands of "equality" and "rights," blurring conceptual boundary lines; and too easily succumbs to the "necessity" of big government, which he says lumbers on for at least a few very practical reasons.

And Tocqueville? Well, here he is on the allure of democratic despotism, in a passage cited by Commager:

> Our contemporaries are constantly excited by two conflicting passions; they want to be led and they wish to remain free. . . . They devise a sole, tutelary, and all-powerful form of government, but elected by the people. They combine the principle of centralization and that of popular sovereignty; this gives them a respite; they console themselves for being in tutelage by the reflection that they have chosen their own guardians.

Commager admits that centralized government has indeed been the nemesis of liberty, and that freedom has tended to flourish in those lands and in those eras when central authority has been weakest. Mid-century Italy and Germany confirm Tocqueville's worries amply enough; Hitler won power first at the ballot box.

"But were generalizations and prophecies based on some centuries of Old World history valid for America?" Commager wonders. It startles that any serious observer, witnessing the progressive trading-off of individual autonomy for demo-

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cratically demanded goodies in the past decades, from Social Security to Medicare, and beyond, can yet doubt the relevance of Tocqueville's insight for the United States. To be sure, Commager does not dismiss the dangers of big government lightly, and he does point out that to be more free of government, people must make fewer demands on government. But his account of its growth both informs and misinforms.

Have wars and global interventionism fueled the growth of bureaucracy and government, even if some of Tocqueville's specific worries about the character of a democratized military are unwarranted? Yes, and many just complaints can and should be logged about how the United States has conceived its role in the world and trespassed both abroad and at home.

But these complaints need to be framed in relation to a military's legitimate purpose, namely, self-defense. That doesn't mean that freedoms and constitutional protections may be flouted at whim as long as some military goal can be alluded to. But it does mean that "military security" must be a governing concern of the federal government, even if it "makes all the difference, after all, what it is that we secure." What we're securing may not be immaculate, but we still need to fend off the Visigoths.

The growth of "big" or national government has also been impelled by the need to thwart "local" violations of liberty, such as enslavement of blacks in the old South. The engine here is the Fourteenth Amendment, which by stipulating "equal protection" of all citizens encouraged a consolidation of national authority begun by the Constitution itself.

Commager is right to laud the beneficent aspects of this centralization, but it has hardly been an unmixed blessing for individual liberty. National government can be properly large in its ability to overturn abuses or neglect of state and local governments, but still carefully circumscribed in the aims of its power.

But what if national government becomes "big" in a quite different way, exceeding its chartered mission by, among other things: protecting organized labor from competition, imposing shackles on peaceful business activity, and instituting Social Security and Medicare? In endorsing the latter exercise of power as enthusiastically as the former, Commager is welcoming the very trade-off of freedom for favors that Tocqueville warned us of. His ahistorical emphasis of the phrase "general welfare" plucked from the preamble to the Constitution, as if the Founding Fathers were all New Dealers whether they knew it or not, hardly reassures.

Commager is similarly sanguine about the national government's efforts on behalf of the environment. But here again the record is mixed at best, and in this volume the record goes unexplored. When a developer can be jailed for messing around with a "wetland" that was only defined as such after the start of the development, something is wrong. True environmental depredation is best countered by clearly defining and enforcing property rights, which would mean forsaking federal land ownership.

The main concern seems to be that we are "exhausting" our resources; a claim often asserted but yet to be proved. One can argue with that also. But more to the point for a book that takes *Democracy in America* as its launching pad, Commager offers no discussion or even clue of how special-interest conflicts and demands can and have influenced environmental legislation in directions quite askew the preservation and protection of the environment. How are democratic impulses wending their way in *this* arena? Again, liberal political preferences pinch-hit for substantive insight. Those who disagree are "imprisoned" by an outmoded world view.

When we encounter attempts to clarify concepts like equality, justice, and the like it is even harder to catch hold of Commager's argument. The liberal faith in welfarism prevails. Yes, equality and liberty contradict each other—if equality means equality of economic results, not equality of legal protection, equality of rights. Whatever Tocqueville's concerns may have been, Commager himself is puzzled, even disap-

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pointed that "equal protection of the laws" was not extended "into the economic arena" after it was finally applied to civil rights. "Neither the court nor the Congress is at this stage prepared to say that equal protection of the laws means an equal right to a job, means equality in housing, means equality in medical care. . . ," he laments. Actually, such "rights" *have* been claimed by men in power, and programs instituted on such grounds. But the warrant for them under the rubric of equal *legal* protection is less clear. Or wholly unclear. What is the nature of the rights that should be legally protected? If I have a "right" to housing, medical care, etc., is the person compelled to provide my housing, medical care, etc., being equally protected in *his* right to the freedom to retain the product of the sweat of his brow—his right to survive, live, pursue his happiness? Reading Commager's essay, I get the feeling he might regard such a question as annoyingly ideological or beside the point.

But in no other discussion could it be more relevant. The lock-step totalitarianism that would attend utter economic equality, rationalized or not by the Kantian categorical imperatives evoked during the close of this book, would go far to confirm the "generalizations and prophecies based on some centuries of Old World history" advanced by Alexis de Tocqueville. □

David M. Brown is a free-lance writer.

Reclaiming the American Right: The Lost Legacy of the Conservative Movement

by Justin Raimondo

Center for Libertarian Studies • 1993 • 287 pages • $17.95 (includes postage)

Reviewed by Jim Christie

According to Old Right, paleoconservative columnist Pat Buchanan: "To understand the new rifts on the Right, scholars have begun to research its history, to explore its roots. Latest to do so is a San Francisco writer, Justin Raimondo of the Mises Institute. In his recently released book, *Reclaiming the American Right: The Lost Legacy of the Conservative Movement*, he argues that conservatism is a cause corrupted and betrayed."

Raimondo certainly does—and with gusto, cutting right to the chase—indeed, on pages one and two—in his accusation of just who is to blame for ideological high treason.

"Today, the conservative movement is united on *nothing*, not even the traditional conservative credo of limited government," writes Raimondo. "Instead of railing against the corruption of the Republic and the depredations of the New Deal and the Great Society, [neoconservatives] are comfortable with the legacy of FDR and seek not to repeal it but only to trim it around the edges . . . In this view the American state is much like its European cousins; it is provider as well as protector, and policeman not only of its own mean streets but of the entire world."

Raimondo's writing is clearly influenced by Buchanan: if Raimondo were a boxer, he certainly wouldn't be known for many fanciful moves or for jabbing, but for fast combinations and, certainly, a roundhouse punch—delivered, naturally, from the right.

His tenacity is evident throughout *Reclaiming the American Right*, with his targets purposely right-of-center. But then again, Raimondo admits he wrote *Reclaiming the American Right* as a fighting manifesto for the emerging paleoconservative cause rather than as a complete or impartial history of the Conservative Movement.

Still, for all its exclusivity and its fight, *Reclaiming the American Right* does have a considerable amount of good material regarding the reactionary and libertarian wordsmiths of the Conservative Movement, for Raimondo serves the admirable purpose of celebrating the Old Right literary canon—hence the felicitously appropriate subtitle, *The Lost Legacy of the Conservative Movement*.

Raimondo gives Old Right writers such as Garet Garrett, John T. Flynn, and Colonel Robert R. McCormick of *Chicago Tribune*

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and anti-New Deal fame a sense of depth and texture that is no doubt lacking in even the handful of graduate-level courses that dare to touch on the Old Right. When such courses do, they usually tend to promote the conventional, caricaturesque, eighth-grade level history of the Old Right based on the stigmatizing of the America First movement as isolationist, xenophobic, pro-Nazi, racist, anti-Semitic, anti-progress, you name it.

Reclaiming the American Right is worth reading on that single accomplishment. Raimondo gives a much needed nuanced analysis of the Old Right, a rarity in a United States that now rarely acknowledges its anti-statist past in acceptable public debate. □

Jim Christie is with the Independent Institute of Oakland, California.

Inside American Education: The Decline, the Deception, the Dogmas

by Thomas Sowell

The Free Press • 368 pages • $24.95

Reviewed by Patrick Groff

One searches in vain for euphemistic comments about his subject in Thomas Sowell's scathing new criticism of our nation's educational systems. "I have long been appalled by the low quality and continuing deterioration of American education," Sowell bluntly asserts. From my vantage point as a longtime true insider in the educational establishment, I have grown increasingly aware of how much I share his feeling.

Since Sowell is bold, forthright, and relentless in his negative evaluation, there is no mistaking his doleful opinions about our public schools: their teachers and unions, their bureaucrats, teacher credentialing and training, the lack of accountability, "classroom brainwashing," and the implementation of assorted dogmas such as psychotherapeutic, sex, multicultural, and bilingual education. Sowell's palpable outrage at the widespread adoption among educators of "miscellaneous psycho-babble," such as "relevance, the whole person, role models, and self-esteem," springs off the pages of his text.

Sowell is no less harsh in his indictment of university education: of its professors, tenure, the massive federal spending for, and the overcharging and waste in research, the lack of accountability (again), the displacement of teaching by useless research, ethnic studies departments, racial and ideological double standards on campuses, unfair admissions practices, and the exploitation of athletes.

The impressive thing about Sowell's intense yet highly readable denunciations of these educational evils is that he makes the case against them so irresistibly compelling. Few reasonable readers of *Inside American Education* are likely to leave his volume not convinced that our education systems have "taken our money, betrayed our trust, failed our children, and then lied about the failure with inflated grades and pretty words." It will be the obstinate reader, indeed, who is not persuaded by Sowell that education in America has exploited our children in foolish experiments, in schemes for propagandizing them, and for purposes of racial balancing and bilingual programs. What reader will be able to disclaim Sowell's exposé of universities supposedly dedicated to the freedom of ideas, which actually turn out to be "the most intolerant institution in American society"? After reading Sowell's book, parents will no longer be sure that the high university tuition they spend will ensure that their children are instructed by bona fide professors, rather than by graduate students.

But while Sowell is long on revealing the numerous disgraceful shortcomings, machinations, and duplicities in American education, he comes up short with detailed solutions for them. The dramatic rhetoric that fills Sowell's book suddenly becomes muted at this point. The two pieces of advice he offers education reformers are uncharacteristically conventional, hardly the radical, spirited, and extraordinary calls to action that his book leads his readers to expect.

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To achieve the "institutionalized changes" that Sowell says are needed, reform agents should (1) "mobilize enough political muscle to win decisive votes in state legislatures," and (2) should "mobilize their superior fire-power for decisive assaults on strategic objectives." Sowell leaves us in the dark, unfortunately, as to the dynamics of how such mobilization of public opinion and its follow-through can be activated, nor why it has not been triggered so far.

Sowell's book makes clear, therefore, that it is far easier to identify our present educational woes than it is to propose realistic, easy-to-implement resolutions of them. His book carries with it, then, a somber yet hidden implication: our tax-supported educational systems basically are so structurally flawed that they now are probably beyond redemption. We likely must scrap them and start over with a system that provides built-in protections against the educational evils that Sowell describes. Sowell's insight into this matter regrettably appears to stop short of this discernment.

It is not that radical start-over plans are unavailable. For this purpose Sowell could have consulted Lewis J. Perelman's *School's Out: Hyperlearning the New Technology, and the End of Education* (New York: William Morrow, 1992). To rid ourselves of the educational monster that Sowell depicts, we must outlaw academic credentials in favor of demonstrations of workplace competency, and bypass the educational establishment by privatizing schools, diverting the money saved in both cases into educational technology development and implementation, Perelman explains. □

Patrick Groff is professor of education emeritus at San Diego State University.

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—ALAN GREENSPAN (1963)

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